ALBERTA
LEGISLATURE

REPORT OF THE

AUDITOR GENERAL

FOR THE YEAR ENDED MARCH 31, 1984

Alberta Legislature

Office of the Auditor General

Dr. C.R. Elliott, M.L.A.
Chairman of the Select Standing Committee
on Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1984, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

F.C.A.
Auditor General

Edmonton, Alberta
March 4, 1985

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REPORT OF THE AUDITOR GENERAL OF ALBERTA

FOR THE YEAR ENDED

MARCH 31, 1984

1 INTRODUCTION

1.1 FOREWORD

1.1.1 This is the sixth annual report of the Auditor General to the Legislative Assembly of Alberta. It covers the fiscal year of the Crown ended March 31, 1984 and discharges the reporting requirements of section 19 of the Auditor General Act, Chapter A-49, Revised Statutes of Alberta 1980. The Auditor General Act is reproduced in Appendix I of this report.

1.1.2 A significant part of the work involved in an annual audit takes place after the end of the fiscal period. Furthermore, it is normal practice for auditors to review events that occur between the end of the period being reported on and the completion of the audit. For these reasons, some observations and recommendations contained in this report arose from audit activity during the 1984-85 fiscal year of the Crown.

1.2 OVERALL ASSESSMENT

1.2.1 The main purpose of this report is to bring to the attention of the Legislative Assembly matters reportable under section 19 of the Auditor General Act that were observed and that the Auditor General considers are important.

1.2.2 It should be borne in mind, however, that matters reportable under section 19 of the Act are, in the main, administrative shortcomings and irregularities. Accordingly, this report is a report by exception and as such cannot be a balanced report. This is why the report may seem to emphasize shortcomings without giving credit for situations where no serious irregularities were observed. It is important therefore, to acknowledge that most audits for the 1983-84 fiscal year revealed no shortcomings or irregularities considered worthy of reporting to the Legislative Assembly under section 19 of the Auditor General Act.

1.2.3 An overall assessment of the quality of the Province's financial administration must not detract from the importance of the observations and related recommendations contained in this report. Nevertheless, based on the work of the Audit Office, the Auditor General considers that the financial affairs of the Province were administered in a generally satisfactory manner during the 1983-84 fiscal year of the Crown. Furthermore, the financial records and controls maintained by most Provincial entities have generally continued to improve. Many previously reported problems have now been substantially eliminated, in part due to the prompt and positive response that audit findings and recommendations normally receive from all levels of management.

1.2.4 This report, like its predecessors, is "recommendation oriented". As such, the reported shortcomings and irregularities are accompanied by recommendations designed to eliminate or correct them. Each year, the Provincial Treasurer responds formally to the individual recommendations contained in the Auditor General's annual reports in a report to the Select Standing Committee on Public Accounts.

Prior Years' Recommendations

1.2.5 The Provincial Treasurer's responses to the Auditor General's 1982-83 annual report recommendations are reproduced in Appendix II of this report. Most of the responses indicate general agreement with the positions taken by the Auditor General and a willingness to implement the recommendations.

Looking back over the Auditor General's first five annual reports reveals that they contained 139 specific recommendations. Of these, 11 are carried forward in this report, while 10 others are in the special section for recommendations from previous annual reports that were rejected or are not completely resolved. This means that 118 of the recommendations from the first five reports were either implemented or, as was the case in a few instances, situations changed to render the recommendations redundant.

Acknowledgements

1.2.6 An auditor's responsibilities can be discharged more efficiently with the co-operation and assistance of those whose affairs are audited. For this reason, the Auditor General is pleased to acknowledge with gratitude the excellent co-operation and assistance that management and staff of departments and agencies have extended to staff and agents of the Audit Office during the course of their work.

1.3 SUMMARY INFORMATION

1.3.1 This subsection contains general comments on the Province's 1983-84 operating results and the audit of the published figures. A more detailed discussion on the consolidated financial statements and the accounting policies used to prepare them may be found in section 3 of this report.

1.3.2 In past years, the financial statements of the Province's General Revenue Fund were often viewed as the financial statements of the Province. This was a reasonable view so long as the majority of the Government's business was transacted through the General Revenue Fund. More recently, however, more and more of the Province's activities have been financed through agencies and funds that are separate from the General Revenue Fund. For this reason, a fair presentation of the Province's overall results and financial position can now be obtained only from financial statements that combine the operating results and financial position of substantially all of the entities through which the Province transacts its business. Such are the consolidated financial statements of the Province which are an aggregation of the financial statements of the General Revenue Fund, the Alberta Heritage Savings Trust Fund and approximately seventy of the Province's agencies and funds. The only major exclusions (as required by section 2(5) of the Financial Administration Act) from the consolidation (See sub-section 3.2.1 of this report) are the Provincially owned universities, colleges, technical institutes and hospitals.

Each year since 1978-79 when consolidated statements were first published, the Government has continued to refine the consolidation methods used and will undoubtedly continue to do so in future. Nevertheless, the Auditor General believes that the consolidated financial statements now constitute the best available basis for reviewing the overall financial position of the Province and its annual operating results.

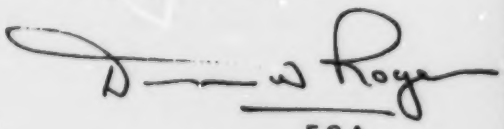
1.3.3 The Auditor General reported on the Province's 1983-84 consolidated financial statements as follows:

AUDITOR'S REPORT

To the Members of the
Legislative Assembly

I have examined the consolidated statement of reported assets, liabilities and net assets of the Province of Alberta as at March 31, 1984 and the consolidated statements of revenue and expenditure and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Province of Alberta as at March 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting, considered appropriate in the circumstances, as described in Note 1 to the consolidated financial statements applied on a basis consistent with that of the preceding year.



F.C.A.
Auditor General

Edmonton, Alberta
March 4, 1985

1.3.4 The above report, together with the overall assessment in section 1.2 of this report, is the culmination of the majority of the work done each year by the Audit Office. In effect, however, the report covers more than just the consolidated financial statements and the consolidation

process. It also covers and relies on the 1983-84 audits of the various consolidated entities. These include the General Revenue Fund and approximately seventy Provincial agencies and funds.

Each of these audits calls for a separate and independent auditor's report and accordingly, must be performed to a much more detailed level of precision than would otherwise be needed to support the report on the consolidated financial statements.

These audits, together with the annual audits of the universities, colleges, technical institutes, hospitals and irrigation districts, are performed in accordance with generally accepted auditing standards duly augmented as explained in subsection 4.3 of this report. These augmentations are designed to identify and report on system deficiencies and instances of non-compliance with legislative authorities that may not be revealed by conventional financial audits.

During each audit, all transactions selected for audit examination are also reviewed to see whether they have adequate legislative authority. In addition, all significant accounting and financial control systems are reviewed so that apparent weaknesses can be reported to management and, where appropriate, to the Legislative Assembly. Most key financial controls in these systems are compliance tested each year to determine whether they are working effectively. Significant financial systems that are not tested each year are compliance tested every few years on a rotational basis. In addition, other management control and information systems are audited for existence and adequacy on a selective basis.

An audit that combines all of the above elements (i.e. audit of financial statements, audit for compliance with authorities, and audit of accounting and management control systems) may be termed a comprehensive audit. Accounting systems and management control systems are both component parts of internal control. In this context, internal control is used in the broader sense as defined in section 5200 of the Canadian Institute of Chartered Accountants Handbook. That is, a plan of organization and all co-ordinate systems established by management to assist in achieving management's objective of ensuring, as far as is practical, the orderly and efficient conduct of its operations including the safeguarding of assets, the reliability of accounting records and the timely preparation of financial information.

Consolidated Operating Results

1.3.5 The consolidated financial statements show that for the 1983-84 fiscal year, the Province recorded a consolidated net revenue, ie. an annual surplus, of $240 million (1982-83 annual deficit – $794 million). They also show that at March 31, 1984, the consolidated net assets of the Province, ie. the accumulated surplus, was $11.5 billion (March 31, 1983 – $11.3 billion).

As explained more fully in section 3 of this report, annual and accumulated deficits/surpluses must be interpreted by reference to the accounting principles and consolidation methods employed in preparing the consolidated financial statements. Although these principles and methods are employed and accepted in many governmental jurisdictions and are explained in a note to the financial statements, they are not, in several respects, the generally accepted accounting principles that apply to profit oriented organizations.

For example, the $11.5 billion accumulated surplus at March 31, 1984 does not reflect the Province's substantial unrecorded liabilities for future pension plan obligations. Moreover, it does not include the value of land and buildings purchased and owned by the Province, or the millions of hectares of Crown lands and resource rights that attach thereto. The costs of acquiring land, buildings and other fixed assets are treated as expenditures in the years in which they are incurred, rather than being treated as assets with a continuing value as is normal in non-government situations.

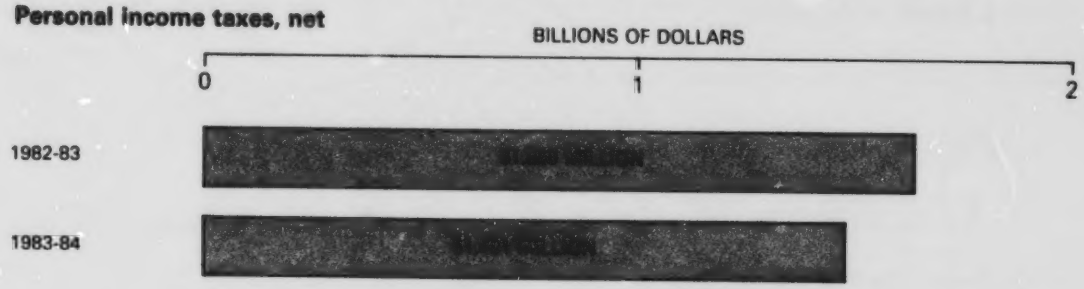
1.3.6 For these and similar reasons, the Province's reported annual surplus and accumulated surplus may be misleading unless the reader understands what the figures include (and don't include) and their basis of presentation.

The consolidated revenue for 1982-83 and 1983-84 reported in the Province's public accounts is as follows:

	1982-83	1983-84	Increase (Decrease)	
		(Millions of Dollars)		%
Taxes	$ 1,922	$ 2,152	$ 230	12.0
Non-renewable resource revenue	4,850	5,386	536	11.1
Payments from Government of Canada	1,167	1,274	107	9.2
Fees, permits and licenses	386	467	81	21.0
Utility and trading profits	220	280	60	27.3
Investment income	1,823	1,852	29	1.6
Other	182	161	(21)	(11.5)
	$10,550	$11,572	$1,022	9.7

The following explains some of the more significant variances in consolidated revenue, as reported in the public accounts, between the 1982-83 and 1983-84 fiscal years:

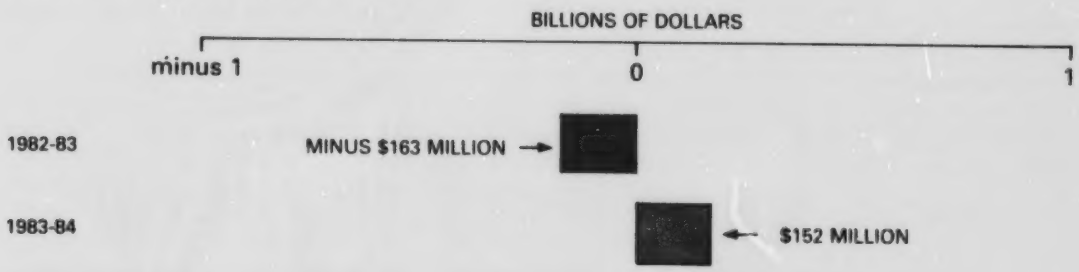
Personal income taxes, net



Personal income taxes, net during 1983-84 decreased by $169 million or 10.2% compared to 1982-83.

The decrease was caused mainly by reduced estimates (by the Government of Canada) of the incomes of individuals resident in Alberta. (Subsection 3.2.10 of this report explains how Government of Canada estimates initially determine the amount of personal income taxes received each year by the Province.)

Corporate income taxes, net



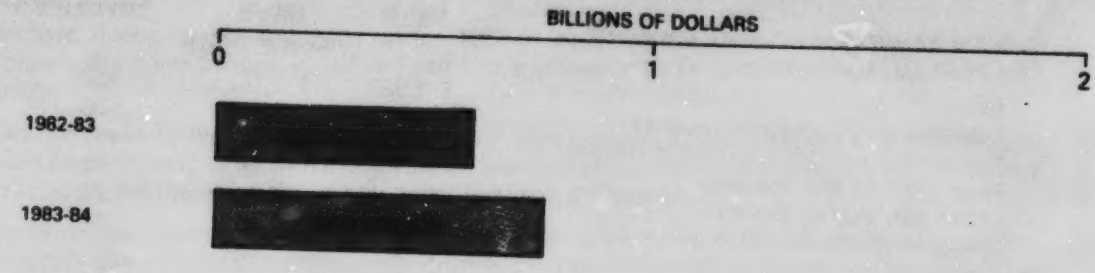
Corporation income tax, net during 1983-84 increased by $315 million compared to 1982-83.

The increase was caused mainly by:

— a $134 million increase in corporate tax assessments and instalments on account, and

— a $149 million decrease in royalty tax credits caused by 1981-82 fiscal year tax returns being processed in 1982-83 as well as royalty tax credit instalments for 1982-83 fiscal year tax returns.

The above chart shows corporation income tax net of various deductions and allowances, including royalty tax credits and royalty tax rebates. If these credits and rebates were excluded, the chart would be as follows:



Non-renewable resource revenue

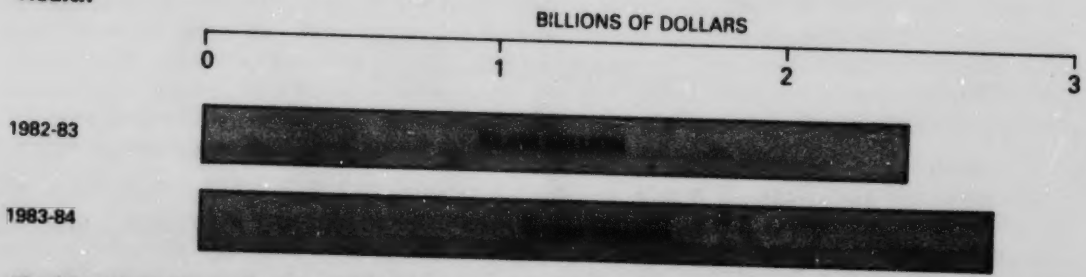
For comparative information on non-renewable resource revenue, see sub-section 1.3.11.

1.3.7 The consolidated expenditure for 1982-83 and 1983-84 reported in the Province's public accounts is as follows:

	1982-83	1983-84	Increase/(Decrease)	
		(Millions of Dollars)		%
Health	$ 2,438	$ 2,724	$ 286	11.7
Education	2,101	2,249	148	7.0
Social services	918	1,001	83	9.0
Regional planning and development	625	610	(15)	(2.4)
Housing	475	523	48	10.1
Recreation and culture	269	199	(70)	(26.0)
Environment	205	181	(24)	(11.7)
Resource conservation and industrial development	1,827	1,353	(474)	(25.9)
Transportation and utilities	1,521	1,395	(126)	(8.3)
Protection of persons and property	340	368	28	8.2
General government	737	659	(78)	(10.6)
Valuation adjustments	(112)	70	182	
	$11,344	$11,332	$ (12)	(0.1)

The following explains some of the more significant variances in consolidated expenditure, as reported in the public accounts, between the 1982-83 and 1983-84 fiscal years:

Health



Health expenditure during 1983-84 increased by $286 million or 11.7% compared to 1982-83.

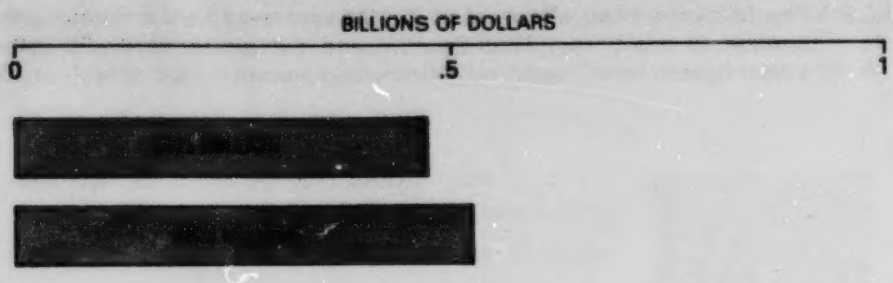
The main reasons for this increase were:

— operating grants to active care hospitals increased by $101 million,

— a $64 million increase in the expenditure of the Health Care Insurance Fund mainly because medical health services costs increased by $42 million, and

— a $47 million increase in financial assistance for capital construction at various Provincial hospitals.

Housing



Housing expenditure during 1983-84 increased by $48 million or 10.1% compared to 1982-83.

The main reasons for this increase were:

— a $100 million increase in the requirements of the mortgage insurance fund of the Alberta Home Mortgage Corporation due to a substantial increase in the reserve for anticipated losses,

— a $76 million increase in expenditure for the Alberta pioneer repair and seniors home improvement programs, offset by

— a $163 million decrease in expenditure for capital projects by the Alberta Housing Corporation.

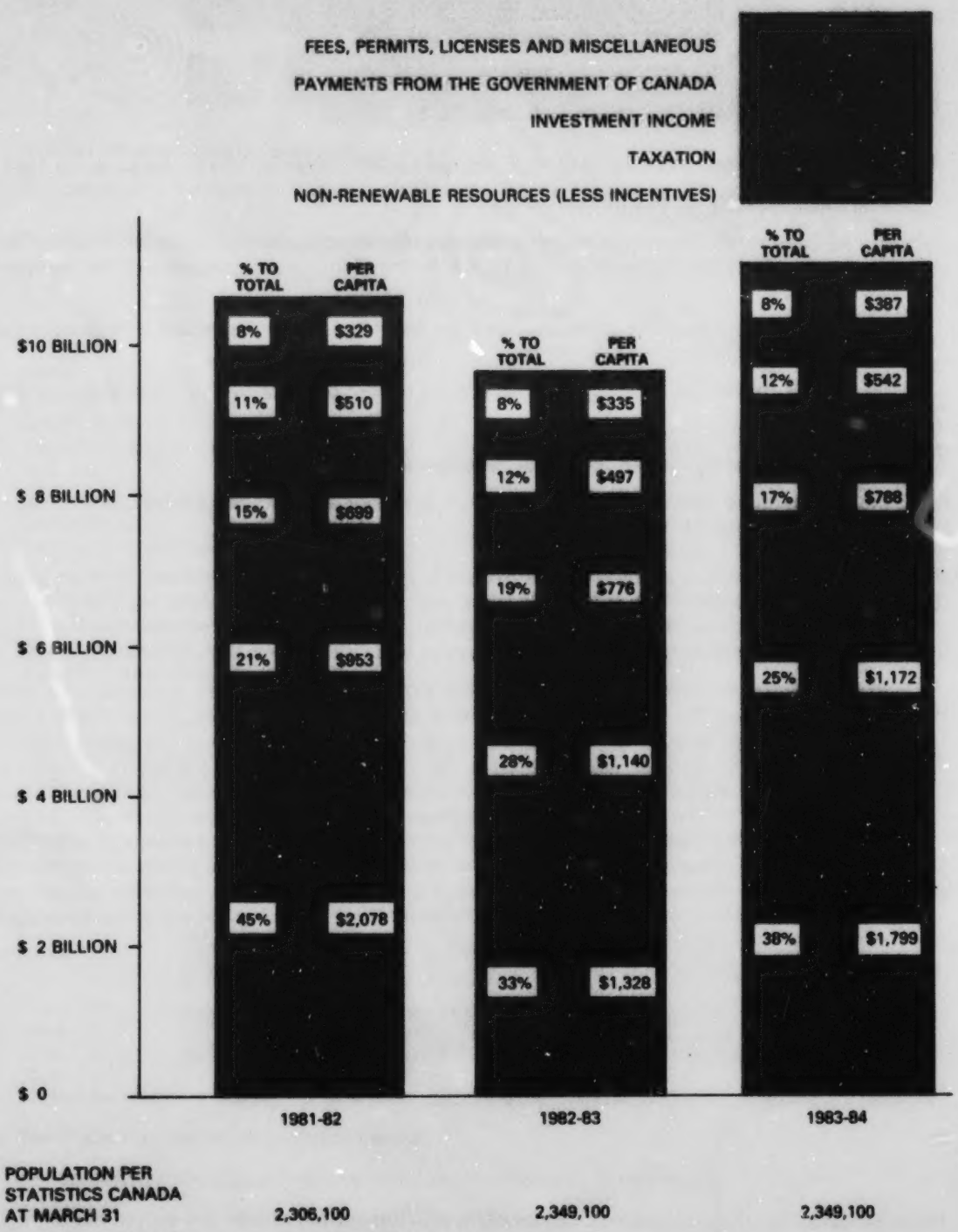
Resource conservation and industrial development

For comparative information on resource conservation and industrial development expenditures, see subsection 1.3.11.

1.3.8 In the public accounts, financial information is properly displayed in a way that satisfies the prevailing legislation and is in accordance with acceptable government reporting practices. Pursuant to subsection 19(3)(b) of the Auditor General Act, however, the following charts display some of the same financial information in an alternative and simplified manner.

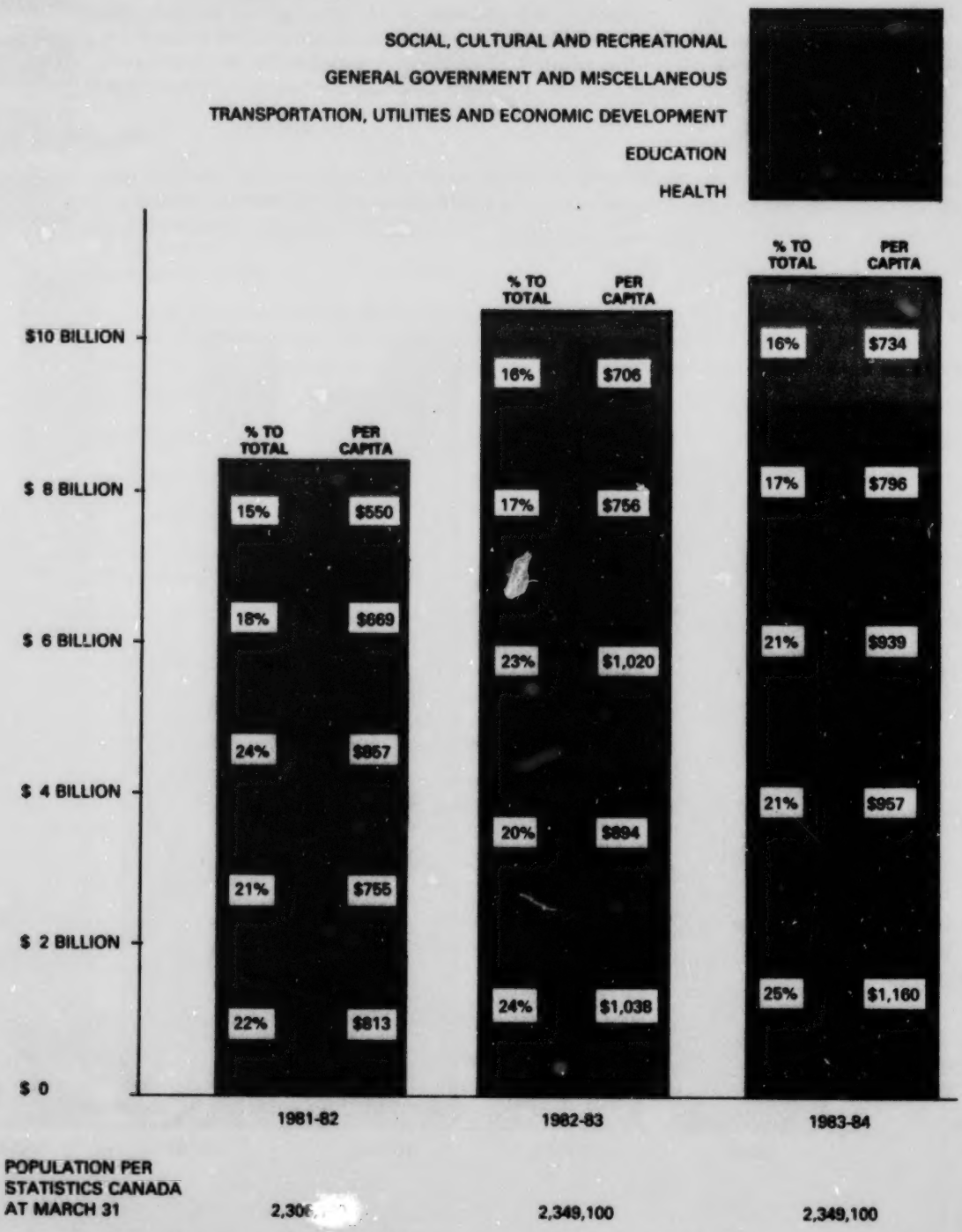
In preparing the charts, some revenues and expenditures have been grouped on a generic basis rather than the basis used in the public accounts. For example, in the charts freehold mineral tax is included in non-renewable resource revenue, whereas in the public accounts it is included in tax revenue. Non-renewable resource revenue (net) in the charts is the revenue after deducting from gross non-renewable resource revenue, costs under the various incentive programs that can be said to relate to the generation of that revenue, viz. royalty tax credits and rebates, petroleum incentive program grants, well servicing and developmental drilling incentives, and geophysical and exploratory drilling incentives. In the public accounts, royalty tax credits and rebates are reflected as deductions from tax revenue, while some costs under the other incentive programs are reflected as resource conservation and industrial development expenditures.

1.3.9 **The following chart shows consolidated revenue by major groups, the percentage of such revenue to total consolidated revenue, and revenue per capita, for the past three years. (Prior years' figures have been reclassified where necessary to conform to 1983-84 presentation).**



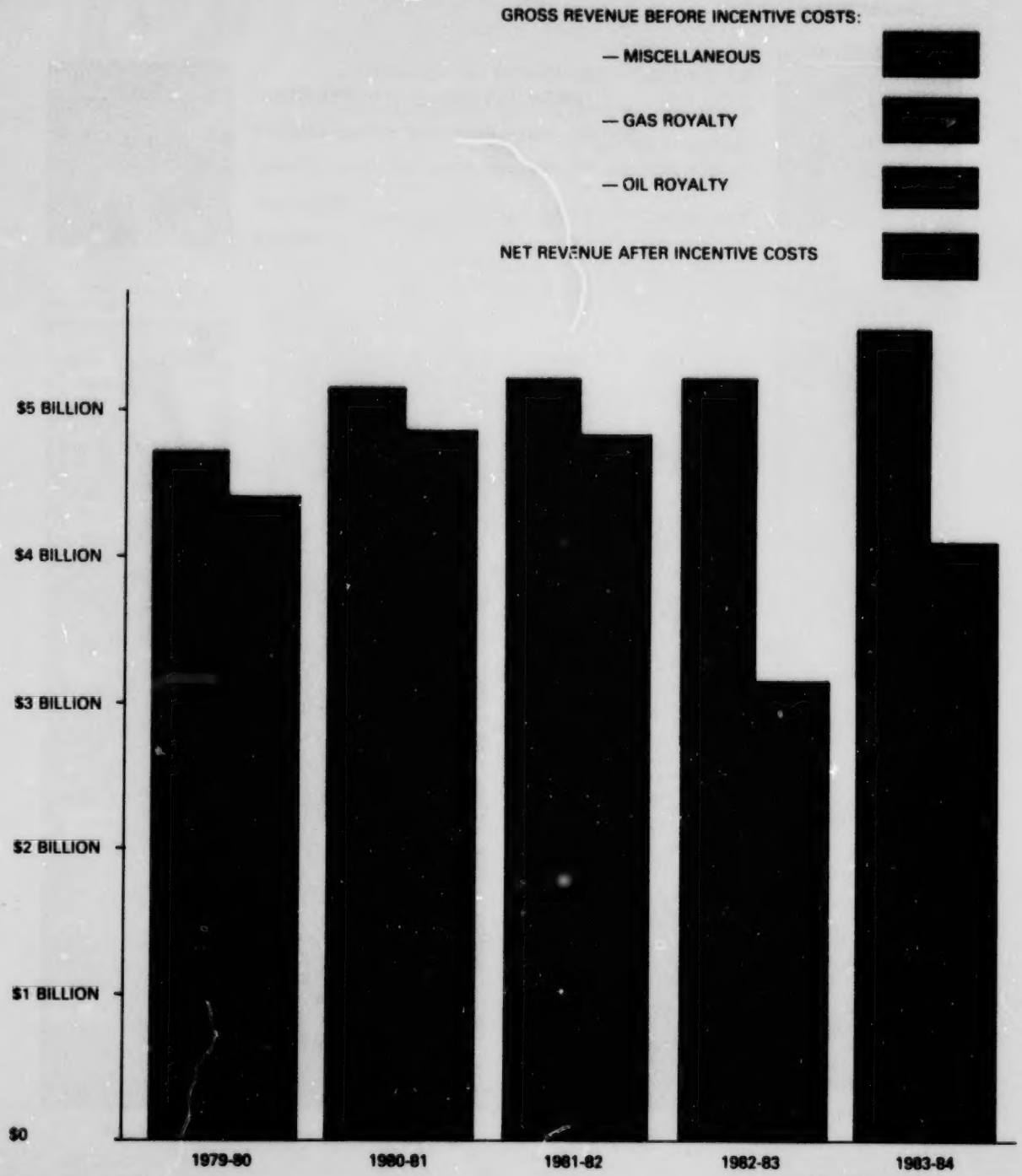
POPULATION PER STATISTICS CANADA AT MARCH 31	1981-82	1982-83	1983-84
	2,306,100	2,349,100	2,349,100

1.3.10 The following chart shows consolidated expenditure by major groups, the percentage of such expenditure to total consolidated expenditure, and expenditure per capita, for the past three years. (Prior years' figures have been reclassified where necessary to conform to 1983-84 presentation).



POPULATION PER STATISTICS CANADA AT MARCH 31	2,306,[illegible]	2,349,100	2,349,100

1.3.11 The following chart shows non-renewable resource revenue for 1979-80 to 1983-84 before allocations to the Alberta Heritage Savings Trust Fund.



The preceding chart shows that during 1983-84, gross non-renewable resource revenue continued to increase gradually while net revenue (ie. net of incentive program costs) partially recovered following its regression in 1982-83.

Oil Royalty

Oil royalty revenue during 1983-84 increased by $477 million or 17.7% compared to 1982-83. The main reasons for this increase were increased production and an increase in the portion of the production that was subject to the New Oil Reference Price (NORP). Oil subject to NORP sells at a higher price than "old oil" and, therefore, attracts more royalty per barrel.

Gas Royalty

Royalty on natural gas and natural gas by-products during 1983-84 decreased by $182 million or 9.7% compared to 1982-83. The main reasons for the decrease were decreased production and, to a lesser extent, a price reduction.

Miscellaneous Revenue

A large portion of miscellaneous revenue comprises the proceeds from bonuses and sales of Crown leases. Revenue from this source during 1983-84 increased by $150 million compared to 1982-83. The main reasons for the increase were that more hectares were leased and the average price per hectare also increased.

Incentive Program Costs

Incentive program costs include petroleum incentive program grants, royalty tax credits and rebates and well servicing, developmental drilling, geophysical, and exploratory incentive grants.

Alberta Petroleum Incentive Program (APIP) Grants

Grants under APIP during 1983-84 were $372 million, compared to $684 million in 1982-83; a decrease of $312 million or 45.6%. It should be noted, however, that the program was established retroactively and some of the costs charged to 1981-82 were in respect of the 1980-81 fiscal year.

Well Servicing and Developmental Drilling Incentive Grants

Well servicing and developmental drilling incentive grants decreased by $158 million compared to 1982-83. The decrease in 1983-84 reflects the Province's decision to reduce the amount of grants paid.

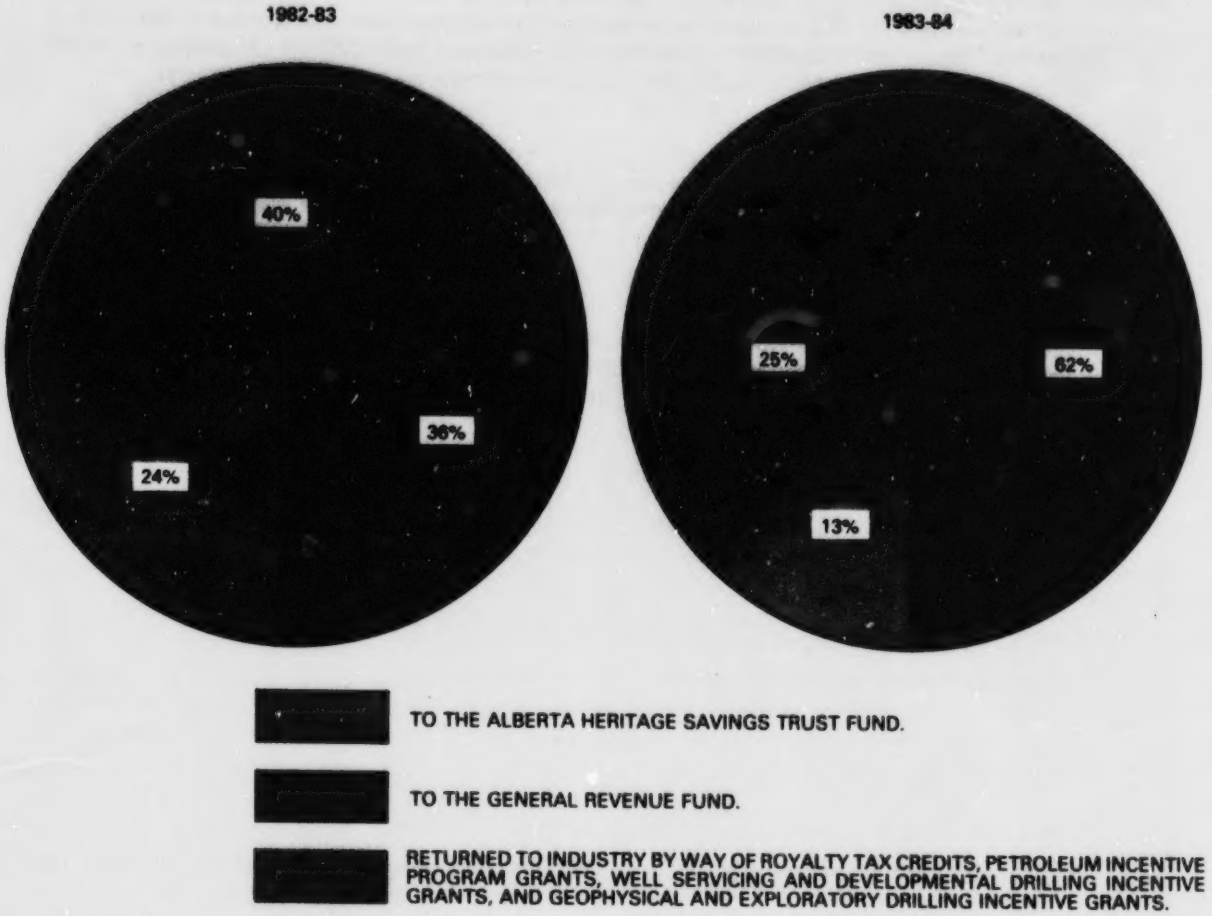
Royalty Tax Credits

Royalty tax credits during 1983-84 decreased by $149 million or 20% compared to 1982-83. The main reason for the reduction was that some 1981-82 tax returns were processed in 1982-83 as well as 1982-83 tax returns.

Exploratory Drilling and Geophysical Incentive Grants

Exploratory drilling and geophysical incentive grants decreased overall by $57 million compared to 1982-83. It should be noted, however, that grants totalling $58 million accounted for as 1982-83 were applicable to the 1981-82 fiscal year.

1.3.12 The following chart compares the disposition of non-renewable resource revenue between 1982-83 and 1983-84.


1982-83
40%
36%
24%
1983-84
25%
62%
13%
TO THE ALBERTA HERITAGE SAVINGS TRUST FUND.
TO THE GENERAL REVENUE FUND.
RETURNED TO INDUSTRY BY WAY OF ROYALTY TAX CREDITS, PETROLEUM INCENTIVE PROGRAM GRANTS, WELL SERVICING AND DEVELOPMENTAL DRILLING INCENTIVE GRANTS, AND GEOPHYSICAL AND EXPLORATORY DRILLING INCENTIVE GRANTS.

NOTE: The disposition of non-renewable resource revenue to the Alberta Heritage Savings Trust Fund is less than the percentages stated in legislation for several reasons. The main one is that the annual transfer from the General Revenue Fund is calculated on non-renewable resource revenue net of certain incentive program costs, principally the grants paid under the Alberta Petroleum Incentives Program.

2 AUDIT OBSERVATIONS AND RECOMMENDATIONS

2.1 INTRODUCTION

2.1.1 This introduction is provided to acquaint readers with the criteria used by the Auditor General when deciding which observations and recommendations should be included in his annual reports, and also, how observations and recommendations are dealt with prior to their publication in annual reports.

Reporting Criteria

2.1.2 The observations and recommendations contained in this report arose from only some of the audits performed by the Audit Office and its agents. Most annual audit findings are relatively routine in nature and since they are normally addressed by management without delay, it is considered unnecessary to bring them to the attention of the Legislative Assembly.

2.1.3 When selecting observations and recommendations for inclusion in his annual reports to the Legislative Assembly, the Auditor General exercises judgement as permitted by two sections of the Auditor General Act. Section 25 does not require annual reports to include matters which, in the opinion of the Auditor General, are immaterial or insignificant, and subsection 19(5) allows the Auditor General to refrain from reporting deficiencies in systems and procedures otherwise subject to report under subsection 19(2)(d) and (e) of the Act when such deficiencies, in his opinion, have been or are being rectified. These discretionary reporting powers allow the Auditor General's annual reports to concentrate on the more important reportable matters.

When exercising these discretionary powers, the Auditor General considers the circumstances surrounding each potentially reportable system deficiency. Assurances by management that corrective action has been, or is being, taken to eliminate the observed deficiency will affect, though not determine, the decision whether or not to include the matter in the annual report.

2.1.4 Notwithstanding the above, it should not be concluded that management has not begun to take steps, or is unwilling to take steps, to rectify system deficiencies included in this report. Where observed deficiencies are sufficiently prevalent and/or significant, they are included herein even though steps are being taken, or have been taken, to rectify them.

The Auditor General believes that by exercising his discretionary reporting powers in the manner outlined above he can, in most cases, influence management to correct system deficiencies promptly without needing to bring them to the attention of the Legislative Assembly. A further advantage is that his annual report is not cluttered with observations on system deficiencies, many of which are rectified before the report is tabled.

Annual Report Recommendations

2.1.5 As in previous years, the Auditor General's formal recommendations are consecutively numbered. In addition, a complete tabulation of all recommendations is included in the final section of the report.

This report also continues the practice of bringing forward from previous annual reports recommendations that remain unimplemented. Furthermore, so that readers can determine how long a recommendation has remained unimplemented, the fiscal year of the annual report in which the recommendation first appeared is noted in parentheses above and to the right of the repeated recommendation. Recommendations are similarly dated in circumstances where, although the wording has changed, the main thrust of the recommendation remains the same.

In a few instances, the Government has rejected or has deferred a decision on recommendations contained in prior years' annual reports. These recommendations, together with a brief explanation of their status, are listed in subsection 2.6 of this report entitled RECOMMENDATIONS IN PREVIOUS ANNUAL REPORTS THAT WERE REJECTED OR ARE NOT COMPLETELY RESOLVED.

2.1.6 The Auditor General's 1982-83 annual report was laid before the Legislative Assembly in March 1984. Many of the recommendations contained therein required discussion and decisions by management, while others called for legislative changes and/or systems development and implementation, before the problems that gave rise to the recommendations could be eliminated. For these reasons, not all matters previously reported could be dealt with before publication of this report.

In October 1984, the Provincial Treasurer issued a report to the Select Standing Committee on Public Accounts (reproduced in Appendix II of this report) which contains responses to each of the 34 recommendations in the Auditor General's report for the 1982-83 fiscal year. Many of those responses are quoted or referred to throughout this report.

Communication of Audit Observations

2.1.7 Audit observations and recommendations that appear in the Auditor General's annual reports undergo a rigorous process aimed at providing all concerned with the opportunity to challenge or provide input to all that is reported.

At the conclusion of all audits, formal meetings (exit conferences) are held to discuss audit findings and recommendations. These meetings are attended by Audit Office representatives and senior financial and other management officials of the auditee. The main purposes of these meetings are to ensure that management is fully apprized of matters arising from the audit, to discuss proposed recommendations for corrective action and to provide an opportunity for comments by management before the report on the financial statements and the management letter are issued. Minutes of matters discussed are prepared by the Audit Office and are circulated to those who attend the meetings, thereby minimizing the risk of misunderstandings in connection with observations raised and action promised.

Audit observations and recommendations judged by the Auditor General to be of concern to senior management, are then incorporated into a management letter to the deputy minister or senior executive officer responsible for the audit entity. Copies of most management letters are forwarded to the appropriate minister and to the Secretary to the Treasury Board, except for those addressed to Provincial agencies exempt under section 2(5) of the Financial Administration Act.

Subsequently, the Auditor General decides which observations and recommendations are important enough to be reported to the Legislative Assembly. In the course of preparation, draft copies of the annual report are reviewed by the Government's Audit Committee, of which the Provincial Treasurer is a member. Finally, before the annual report is printed, all ministers and deputy ministers or chief executive officers are informed of observations contained in the report that relate to areas for which they are responsible.

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2.1.8 In the remainder of this section of the report, occasional references are made to the Treasury Department's Manual of Financial Administration. This manual was issued by the Office of the Controller pursuant to section 13 of the Financial Administration Act, under which authority is delegated by the Provincial Treasurer to prescribe administrative procedures respecting financial records and accounting systems and the receipt and disbursement of public money. The Manual of Financial Administration is designed for use by senior administrators and financial officers in exercising an overall system of internal control for their departments.

2.2 RESERVATIONS IN AUDIT REPORTS ON FINANCIAL STATEMENTS
(Reported pursuant to subsection 19(2) of the Auditor General Act)

The Auditor General expressed reservations in his opinions on the financial statements of twelve entities audited for the 1983-84 fiscal year of the Crown.

2.2.1 Six reservations of opinion were because the financial statements of:

— Alberta Environmental Research Trust, – Alberta Games Council,

— Grande Prairie Regional College Foundation,

— Olds College Foundation,

— The Alberta Historical Resources Foundation, and

— The Canadian Association of Youth Orchestras

include revenue derived from donations. Revenue of this nature cannot be audited for completeness in accordance with generally accepted auditing standards.

These reservations of opinion do not reflect adversely on the records or the financial statements of the above entities. Rather, they are a product of the nature of donation revenue. For most types of revenue, an auditor can calculate or anticipate the completeness of recorded revenue by reference to the auditee's production or sales records, or by independent verification. Where donations are received from the public, however, the auditor can do no more than examine the amounts that are recorded as received. He cannot verify that all donations received have been recorded.

In these circumstances, generally accepted auditing standards require the auditor to express a reservation of opinion on the financial statements by drawing attention to the nature of the revenue and describing the limited audit work that was possible.

2.2.2 Two reservations of opinion were because the financial statements of:

— Alberta Hospital Edmonton, and

— Alberta Hospital Ponoka

reflect assets and liabilities considered to be transferred to the respective entities, but where the transfer has not been effected in the manner required by legislation.

Before October 1, 1982, these hospitals operated and reported annually as institutions within the Department of Social Services and Community Health. Since that date, however, they have been administered independently by Mental Health Hospital Boards under the authority of Part 5 of the Mental Health Act. The Act requires these hospitals to publish annual reports containing audited financial statements.

The legislation that transferred administrative authority to the Hospital Boards also provided for certain assets and liabilities to be transferred to them by Order of the Lieutenant Governor in Council.

The financial statements of the two hospitals for the year ended March 31, 1984, were prepared on the assumption that the assets and liabilities on the balance sheets at October 1, 1982, were transferred to the hospitals effective that date. However, until specific Orders in Council are passed, the assets and liabilities will not legally belong to the hospitals.

For the above reasons, the Auditor General was unable to satisfy himself concerning the ownership and value of certain assets and liabilities reported as belonging to the two hospitals, and accordingly, expressed reservations of opinion on their financial statements.

2.2.3 One reservation of opinion occurred as a consequence of the Health Care Statutes Amendment Act, 1983, transferring back to The Workers' Compensation Board effective January 1, 1982, responsibility for the cost of health services provided to injured workers coming under the Workers' Compensation Act. When the audit of the Board's financial statements for the year ended December 31, 1983 was completed, no arrangement had been finalized between the Board and the Minister of Hospitals and Medical Care to retroactively authorize payments totalling $48,013,000 by the Board during the year ended on that date. Accordingly, at that time, the payments lacked appropriate legislative authority and, therefore, the Auditor General expressed a reservation of opinion on the financial statements of The Workers' Compensation Board. Since then, however, an arrangement has been finalized authorizing the payments.

2.2.4 One reservation of opinion was because the Auditor General was unable to satisfy himself concerning the ownership and value of certain assets included in the financial statements of the Alberta Research Council. This matter is discussed more fully in subsection 2.4.2 of this report.

2.2.5 One reservation of opinion was because Fairview College had not included in its financial statements for the year ended June 30, 1983, the value of certain assets transferred from the Department of Advanced Education and Manpower to the College when it received public college status in April 1978. The Auditor General reserved his opinion on the College's 1983-84 financial statements for the same reason.

2.2.6 One reservation of opinion was because the financial statements of the Land Purchase Fund contain transactions that were not believed to be within the authority of the Government Land Purchases Act. This matter is discussed more fully in subsection 2.3.9 of this report, wherein it is acknowledged that subsequent to 1983-84, the Government Land Purchases Act was amended to authorize transactions of this nature in future.

2.2.7 In all other cases, the Auditor General reported without reservation that the financial statements examined present fairly the financial position of the entity at March 31, 1984 (or such other accounting period ended within the year ended March 31, 1984), and the results of its operations for the periods covered by the statements, in accordance with generally accepted accounting principles or other appropriate disclosed basis of accounting.

2.3 NON-COMPLIANCE WITH LEGISLATIVE AUTHORITIES (Reported pursuant to subsections 19(2)(a) and (b) of the Auditor General Act)

As explained more fully in subsection 4.3 of this report, all transactions and activities examined in the course of auditing departments, funds and Provincial agencies are also examined to determine whether they comply with the significant financial and administrative authorities that govern them. These authorities include primary authorities such as statutes, and subordinate authorities emanating therefrom such as regulations, orders-in-council, contracts and conditional grant agreements. All subordinate authorities are also examined to determine whether they have been properly issued in accordance with the provisions of a relevant primary or more senior subordinate authority.

In the judgement of the Auditor General, except for the instances of non-compliance described in this and other subsections of the report, the sample of transactions and activities examined in the course of auditing departments, funds and Provincial agencies complied, in all material respects, with relevant and significant financial and administrative authorities. However, no assurance as to compliance is provided with respect to transactions not subjected to audit procedures or to authorities not considered relevant or significant.

The instances of non-compliance reported herein are only those that were observed and which the Auditor General believes are significant enough to be brought to the attention of the Legislative Assembly.

2.3.1 CAPITAL FUNDING FOR HOSPITALS

The Foothills Provincial General Hospital and the Provincial Cancer Hospitals both issued falsified financial reports to obtain capital funding before such funding was due under the prevailing legislative authorities.

Foothills Provincial General Hospital

The Hospital received funding from the Alberta Heritage Savings Trust Fund to pay for construction, renovations and equipment associated with a special services building which was an approved capital project under the administration of the Department of Hospitals and Medical Care. Because it was anticipated that all work would be complete by March 31, 1984, funds were appropriated and available during 1983-84, but not during the following fiscal year.

Due to factors beyond the Hospital's control, construction was incomplete and not all equipment was in place by March 31, 1984. For funding purposes, and to satisfy a perceived obligation to report final costs by March 31, 1984, the Hospital asked the construction contractor and equipment suppliers to submit invoices prior to that date for all anticipated construction work and equipment outstanding, even though some work was incomplete and some equipment had not been delivered by March 31, 1984.

In May 1984, the Hospital submitted to the Department of Hospitals and Medical Care a preliminary balance sheet and statement of funds received and expended which included all anticipated costs. The statements were covered by a signed certificate stating that "Although the financial statements and accruals have not been subject to audit, I believe the information to be factual and accurate." On the strength of this representation, the Department forwarded information to the Treasury Department to be used to record financial obligations in the March 31, 1984 financial statements of the Heritage Fund. The information was certified by an accounting officer of the Department as follows: "I certify the goods and/or services specified above have been certified received on or before 31-Mar-84 and related documents have not been submitted for processing."

It has been established that the Hospital staff who prepared these reports and signed the representation knew them to be inaccurate.

The aforementioned events came to light during the annual audit. Accordingly, the Audit Office asked the Hospital to quantify and remove from its financial statements the costs and accruals

relating to work not completed and equipment not delivered at March 31, 1984. As a result, the Hospital's records and financial statements were adjusted by $481,666, and a similar correcting adjustment was made in the records and financial statements of the Heritage Fund.

An almost identical series of events to those outlined above occurred in connection with renovations to the intensive care unit which also were incomplete at March 31, 1984. In this case, however, the Hospital not only obtained and accrued pre-dated suppliers' invoices, it also prepared (but did not mail) cheques for them and reflected them as paid in the financial statements. Stemming from these incorrect accruals, at the request of the Audit Office the Hospital's records and financial statements were adjusted by $390,000. The claim for funding to cover these expenditures was submitted to the Department of Hospitals and Medical Care in April 1984. The claim was paid in the same month but because the expenditures were identified as relating to 1983-84, they were charged against funds appropriated for the General Revenue Fund for 1983-84.

In both of the above instances, the method by which the Hospital claimed funding for capital expenditures incurred after March 31, 1984 was incorrect. As a result, 1984-85 goods and services were paid for out of funds appropriated by the Legislative Assembly for the preceding fiscal year. Furthermore, if the Hospital's financial statements had remained uncorrected, the accounting principles adopted by and considered appropriate for the Hospital would have been compromised, and the financial statements would have been materially misleading to users of such statements.

Provincial Cancer Hospitals

A series of events similar to those outlined above also occurred at the Provincial Cancer Hospitals. During 1983-84, the Department of Hospitals and Medical Care agreed to provide funding for some equipment but stipulated in its approval for the acquisitions that "this approval expires March 31, 1984. Funds cannot be carried forward into the following fiscal period. Please submit your claim by March 31, 1984."

Although some equipment had not been delivered by March 31, 1984, the Hospitals asked the equipment suppliers to submit invoices as of that date. Copies of these invoices were used to support claims for funding from the Department in respect of the 1983-84 fiscal year. These claims included certificates from a Hospitals official which stated: "Certified above information correct, articles received, services performed, prices just and fair, do not include sales tax and have not been previously reimbursed." Furthermore, each copy invoice bore a certificate signed by the same official stating: "This is to certify that this is a true copy of the original invoice, that the invoice has been paid, and that no previous submission for reimbursement has been made."

It has been established that the person who prepared these claims and signed these representations knew them to be inaccurate.

The aforementioned events came to light during the annual audit. Accordingly, the Audit Office asked the Hospitals to quantify and remove from their financial statements the costs and accruals relating to equipment not delivered at March 31, 1984. As a result, the Hospitals' records and financial statements were adjusted by $627,470. The claims for funding to cover these expenditures were submitted to the Department of Hospitals and Medical Care in April 1984. The claims were paid in the same month but because the expenditures were identified as relating to 1983-84, they were charged against funds appropriated for the General Revenue Fund for 1983-84.

The method by which the Hospitals claimed funding for capital expenditures incurred after March 31, 1984 was incorrect. As a result, 1984-85 goods were paid for out of funds appropriated by the Legislative Assembly for the preceding fiscal year. Furthermore, if the Hospitals' financial statements had remained uncorrected the accounting principles adopted by and considered appropriate for the Hospitals would have been compromised, and the financial statements would have been materially misleading to users of such statements.

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It should be noted that although the two hospitals obtained funding in a way that contravened legislation, they were not seeking excessive funding or funding that had not been budgeted. The problems arose because the fiscal year ended before the expenditures could be incurred and the hospitals believed that funding would be lost unless claims were submitted for the old fiscal year. In the case of the Provincial Cancer Hospitals, an official stated that the Department of Hospitals and Medical Care had inferred that it was the only course of action available because funds could not be carried over from one fiscal year to the next.

In the circumstances, the course of action chosen was unacceptable because it involved action contrary to the Appropriation Acts. A more appropriate course would have been to discuss the problem with the departments involved so that funding could be arranged in the following year, perhaps out of that year's funds or maybe by Special Warrant.

The two situations reported above are similar in some respects to the situation reported in subsection 2.3.5 of this report in connection with the proposed acquisition of the Lethbridge St. Michael's General Hospital. In all three instances, attempts were made to use money appropriated for 1983-84 to purchase goods and services acquired in a later fiscal year.

To appreciate the seriousness of what transpired, it is necessary to understand the principle of "lapsing". This principle is embodied in section 32 of the Financial Administration Act and in annual Appropriation Acts. It is a legislative control which requires monies made available (appropriated) by the Legislative Assembly, but not used within the fiscal year specified, to lapse.

One drawback of this system of control, and one which from time to time attracts widespread comment, is that program managers may be tempted to incur additional and perhaps unnecessary expenditures just before fiscal year-ends to avoid unspent monies appropriated for their programs from lapsing. While this practice is hardly conducive to the economic use of public funds, it nevertheless does not contravene the legislation. When, however, managers attempt to avoid lapsing by charging expenditures incurred in subsequent fiscal years, they do contravene the legislation.

The Audit Office views with the gravest concern any case where it appears that managers have deliberately falsified documents or certificates to subvert expenditure controls imposed by the Legislature and the Government, or that other actions have been taken by managers directly or indirectly to cause such controls to be subverted.

Recommendation: (No. 1)

It is recommended that the Department of Hospitals and Medical Care, the Foothills Provincial General Hospital and the Provincial Cancer Hospitals comply fully with authorities and approved accounting policies to ensure that goods and services are recorded as expenditures in the fiscal years in which they are received and that funding is claimed only in compliance with the provisions of relevant authorities.

Recommendation: (No. 2)

It is recommended that the Department of Hospitals and Medical Care establish consultative arrangements – including liaison with the Treasury Department – to help hospitals resolve problems in connection with funding commitments that lapse at fiscal year-ends.

CENTRAL SALARY PAYROLL SYSTEM

Although most previously reported concerns related to the Province's central salary payroll system have now been eliminated, problems continue to exist with respect to the requisite authorities for salary expenditures.

The Province's central salary payroll system processes the remuneration of approximately 30,000 public employees. In his 1979-80 annual report, the Auditor General commented on inadequacies in the system and inaccuracies in the information it processed and produced. Of particular concern were deficiencies in the procedures used by departments and other users of the central system to produce data for input to the central system, as well as the incidence of clerical and other errors in that data and its supporting records.

Since then, successive annual reports have described the action taken to eliminate most of these concerns. In his 1982-83 annual report (subsection 2.3.7), the Auditor General identified the remaining concerns as being incomplete documentation on personnel files to support withholdings, inaccurate records of vacation and similar entitlements, and payments being made without the requisite evidence of authority.

A cross-government sample of salary transactions examined for the 1983-84 fiscal year revealed a significant improvement in the quality of documentation on employee personnel files and in the records of vacation and similar entitlements. Accordingly, the part of the Auditor General's previous recommendation related to these areas is not repeated in this report.

However, the transactions examined for 1983-84 revealed that a significant number of salary payments were still being made without proper evidence of authority for the payments, though here again, the situation had improved compared to 1982-83. In some departments the problem was that up-to-date lists of expenditure officers were not maintained. This meant that accounting officers who approved the documents were not in a position to know whether officials who initiated the expenditures were duly authorized expenditure officers with responsibility for the budgetary appropriations against which the expenditures would be charged. In addition, instances were noted where salary payroll expenditures were initiated by officials who were not duly authorized expenditure officers.

The circumstances described above represent more than just inadequate control over payroll expenditure; they also constitute non-compliance with the requirements of chapter 7 of the Treasury Department's Manual of Financial Administration and section 37 of the Financial Administration Act which sets out the duties of expenditure and accounting officers. While acknowledging that there have been improvements in this area compared to 1982-83, the incidence of non-compliance is still considered to be excessive.

Recommendation: (No. 3) *(1981-82: No. 32)*

It is recommended that departments and Provincial agencies that use the Province's central salary payroll system ensure that requisite approvals are obtained for all payments, as required by chapter 7 of the Treasury Department's Manual of Financial Administration.

2.3.3 DEPARTMENT OF CONSUMER AND CORPORATE AFFAIRS

In his 1982-83 annual report (subsection 2.2.2), the Auditor General commented on the doubtful legality of transfers by the Department of Consumer and Corporate Affairs of certain monies from the Orderly Payment of Debts Trust and the Debtors Assistance Trust to the General Revenue Fund. It was recommended that the Department either comply with the existing legislation or seek the legislative amendments necessary to authorize the transfers.

In a report to the Select Standing Committee on Public Accounts in October 1984, the Provincial Treasurer responded to the Auditor General's recommendation as follows:

> "The Department of Consumer and Corporate Affairs has forwarded a request to the Acting superintendent of Bankruptcy, Consumer and Corporate Affairs Canada that changes be made to the regulations for Orderly Payment of Debt applicable to Alberta. The changes would include directions for handling unclaimed or undistributed funds and an amendment to the regulations providing for the disposition of accumulated interest.

When Consumer and Corporate Affairs Canada has made changes to the Orderly Payment of Debt regulations, the Department of Consumer and Corporate Affairs will make the same changes in the provincial regulations governing the Debtor's Assistance Board trust funds."

In addition, the 1983-84 annual audit revealed that the Department had immediately and positively responded to the Auditor General's recommendation by issuing instructions to preclude any further transfers of monies from either the Orderly Payment of Debts Trust or the Debtors Assistance Trust to the General Revenue Fund. Since then, no further instances of non-compliance with legislation have been observed and, as a result, the recommendation is not repeated in this report.

2.3.4 DEPARTMENT OF ENERGY AND NATURAL RESOURCES

The Department of Energy and Natural Resources underassessed freehold mineral rights tax due to the Province for the 1983-84 fiscal year.

Freehold mineral rights tax is assessed on owners of taxable mineral rights under the provisions of the Freehold Mineral Rights Tax Act, and regulations issued pursuant thereto. Both the Act and the regulations were amended during 1983-84. Schedule A to Alberta Regulation 12/84 establishes the tax factor to be used when calculating freehold mineral rights tax on wells from which petroleum is recovered, and section 2(4) of schedule A deals specifically with solution gas.

During the Department's 1983-84 annual audit, computer assisted techniques were used by the Audit Office to recalculate tax assessed and billed to owners of taxable mineral rights. Instances were revealed where the productivity parameters used in the calculations did not comply with the requirements of Alberta Regulation 12/84. Incorrectly using low productivity parameters for wells with solution gas production had resulted in freehold mineral rights tax being underbilled for 1983-84 by approximately $700,000.

Section 3(3) of the Freehold Mineral Rights Tax Act provides authority for the Department to recalculate and bill the tax underbilled for 1983-84. Accordingly, the Department has agreed to issue supplementary 1983-84 tax adjustments with the 1984-85 tax bills. As such, no loss of revenue should accrue to the Province. In addition, the Department has undertaken to modify its systems to prevent the problem recurring.

Recommendation: (No. 4)

It is recommended that the Department of Energy and Natural Resources modify the part of its Mineral Tax System used to calculate freehold mineral rights tax to ensure that tax is calculated and billed annually in accordance with the provisions of Alberta Regulation 12/84.

2.3.5 DEPARTMENT OF HOSPITALS AND MEDICAL CARE

The Department of Hospitals and Medical Care attempted to charge the cost of acquiring the Lethbridge St. Michael's General Hospital against funds appropriated by the Legislative Assembly for the 1983-84 fiscal year, even though the hospital was not acquired by the Province during that year.

Pursuant to a long-standing agreement, during 1983-84 the Department agreed in principle to transfer to the Province the owner's equity in the Lethbridge St. Michael's General Hospital. At March 31, 1984, the Department recorded an account payable of $3.3 million to cover the acquisition. This had the effect of treating the acquisition as having occurred during the fiscal year ended March 31, 1984, even though a purchase price had not been agreed and the owner's equity had not passed to the Province at that date. Moreover, neither of these events had occurred by December 1984.

Treating the Hospital's estimated acquisition cost as 1983-84 expenditures was contrary to a number of authorities. It was contrary to chapter 9.6 of the Treasury Department's Manual of Financial Administration which states that "Accounts payable are only recognized for those goods and services which have been received prior to the end of the reporting period." Similarly, it was contrary to the accounting policies and reporting practices adopted by and considered appropriate for the General Revenue Fund and the Province's consolidated financial statements. Finally, it was contrary to the 1983 Appropriation Acts and section 32 of the Financial Administration Act which prohibit funds appropriated for the 1983-84 fiscal year being used for expenditures incurred subsequent to March 31, 1984.

After the Audit Office brought the above to senior management's attention during the Department's 1983-84 annual audit, the $3.3 million account payable was eliminated. (See also subsection 2.3.1 of this report.)

Recommendation: (No. 5)

It is recommended that the Department of Hospitals and Medical Care exercise more care in future to ensure that expenditures are charged against funds appropriated for the fiscal year in which the expenditures were incurred.

2.3.6 DEPARTMENT OF SOCIAL SERVICES AND COMMUNITY HEALTH

In his 1982-83 annual report (subsection 2.2.6), the Auditor General described the method used by the Department of Social Services and Community Health to recoup surplus grant monies from local health units funded by the Department. He also stated that the method did not appear to comply with the Health Unit Act. The annual audit for the following year revealed that the situation continued unchanged throughout 1983-84.

In May 1984, however, a new Public Health Act was assented to which amended the Health Unit Act and allows the Department wider discretion (subject to any regulations that may be issued) in its treatment of health unit grant monies that are surplus to requirements.

Although during 1982-83 and 1983-84 the Department recouped health unit grant surpluses in a way that did not accord with the legislative authorities in effect at that time, the situation was changed by the legislative amendments effected in May 1984. Accordingly, the Auditor General's 1982-83 recommendation relating thereto is not repeated in this report.

2.3.7 EMPLOYER PENSION CONTRIBUTIONS

In his 1981-82 and 1982-83 annual reports (1982-83: subsection 2.2.10), the Auditor General called attention to the Treasury Department's long-standing practice of terminating employer contributions at the same time that employee contributions cease due to the employee having accumulated thirty five years pensionable service or attaining retirement age. Terminating employer contributions in these circumstances was contrary to several of the governing Pension Plan Acts.

The Auditor General recommended that if compliance with the prevailing pension plan legislation pertaining to employers' contributions was considered undesirable, the Treasury Department should seek amendments to the legislation to authorize the cessation of employer contributions when employee contributions cease.

Throughout 1983-84, the Treasury Department continued the aforementioned practice relating to the cessation of employer contributions, even though it was contrary to the legislation. Subsequent to March 31, 1984, however, the Public Service Pension Act and the Public Service Management Pension Act were amended to require employer contributions under those Acts to cease at the same time that employee contributions cease.

In addition, the Audit Office has received assurances that the Local Authorities Pension Act and the M.L.A. Pension Act will be amended in like manner during 1985. Accordingly, the Auditor General's recommendation is not repeated in this report.

2.3.8 HEALTH CARE INSURANCE FUND

In his 1981-82 annual report (subsection 2.3.9), the Auditor General described how the Health Care Insurance Fund had paid and received public money without legislative authority. In the following year, legislative amendments were passed to provide the necessary authority. One amendment provided authority for an arrangement to be made between The Workers' Compensation Board and the Minister of Hospitals and Medical Care. The arrangement would authorize The Workers' Compensation Board to reimburse claims paid by the Health Care Insurance Fund for medical aid to injured workers coming under the Workers' Compensation Act.

During the period from January 1, 1982 to March 31, 1983 the Fund paid $26,599,733 on behalf of injured workers coming under the Workers' Compensation Act. This amount was shown as an amount receivable from the Board in the financial statements of the Fund to March 31, 1983. A formal arrangement, as required by the Act, between the Board and the Minister, had not been completed at the time that the financial statements of the Fund to March 31, 1983 were finalized and, therefore, a reservation was included in the auditor's report with respect to the aforementioned receivable.

In his 1982-83 annual report (subsection 2.2.12), the Auditor General recommended that an arrangement be finalized between The Workers' Compensation Board and the Minister of Hospitals and Medical Care, as provided by section 82.1 of the Workers' Compensation Act, relating to the payment by and subsequent reimbursement to the Health Care Insurance Fund of claims for medical aid provided to workers coming under the Workers' Compensation Act.

An agreement was signed in October 1984 outlining the terms for future payments by the Fund and reimbursements by the Board effective April 1, 1984. In addition, the amounts paid by the Fund during the period from January 1, 1982 to March 31, 1984 were reimbursed by the Board. Accordingly, the auditor's report on the financial statements of the Fund to March 31, 1984, dated November 1984, did not include a reservation of opinion and the Auditor General's recommendation is not repeated in this report.

2.3.9 LAND PURCHASE FUND

In his 1982-83 annual report (subsection 2.2.15), the Auditor General recommended that the Treasury Department seek amendments to the Government Land Purchases Act that would remove any doubt as to whether the Land Purchase Fund has legislative authority to borrow other than by advances from the General Revenue Fund and to mortgage land held by the Fund. The Auditor General qualified his report on the financial statements of the Land Purchase Fund for the year ended March 31, 1983. In his opinion he stated that, based on advice obtained from legal counsel, a mortgage transaction on the Fund's balance sheet was ultra vires the Act, and should be so disclosed.

The transaction was entered into during the year ended March 31, 1982, and was reported for the first time in the Auditor General's annual report for that year. It consisted of a purchase of land to be held by the Fund for a consideration partly of cash and partly of a loan from the vendor secured by a mortgage of the land. However, the financial statements for that year disclosed in a note thereto that the transaction exceeded the powers provided in the Government Land Purchases Act. As a result of this disclosure, the Auditor General was able to issue an unqualified report on the March 31, 1982 financial statements of the Fund.

Although the mortgage was outstanding throughout the following year and was reported as an ultra vires transaction in the 1982-83 report of the Auditor General, the financial statement presentation changed significantly. A note thereto stated that the transaction was intra vires the Act based on an opinion from the Department of the Attorney General obtained subsequent to the issue of the March 31, 1982 financial statements. The Auditor General disagreed with this disclosure and as mentioned in the first paragraph qualified his report on the financial statements.

A note to the March 31, 1984 financial statements again stated that the mortgage, which was still outstanding at that date, was intra vires the Government Land Purchases Act. Accordingly, the Auditor General's report on the financial statements again contained a reservation of opinion similar to that contained in the report of the previous year. However, since March 31, 1984 the Government Land Purchases Act has been amended to allow the purchase price of land acquired for the Fund to be met wholly or partly by assuming any money obligation to a vendor, any existing mortgage or any other obligation. In the opinion of the Auditor General, the borrowing and the mortgage of the land as security therefor, are now intra vires the Act. Accordingly, the Auditor General's recommendation is not repeated.

2.3.10 LOTTERY OPERATIONS

The manner in which the proceeds of the four major lotteries currently operating in Alberta are dealt with, the payments of administration costs and prize money therefrom, and the distribution of net profits earned from those lotteries, appear to lack appropriate legislative authority.

The Minister of Consumer and Corporate Affairs has issued a license under the Interprovincial Lottery Act which purports to authorize the Western Canada Lottery Foundation, as agent of the Province, to manage and operate lotteries in Alberta. The Foundation is a Winnipeg-based organization incorporated under the Canada Corporations Act and its members comprise the four western provinces. It acts as the western regional marketing organization for the Provincial, Super Loto and Lotto 6/49 lotteries which are joint undertakings by all the provinces of Canada. In addition, the Foundation manages the Western Express and Lotto West lotteries on behalf of the four western provinces.

The license also purports to authorize a partnership consisting of Edmonton Northlands and the Calgary Exhibition and Stampede Limited, to act as the provincial marketing organization for lotteries managed and operated by or through the Foundation in Alberta, and also to assist the Foundation in the conduct and management of those lotteries.

The arrangements involving the respective roles of the Foundation and the partnership have changed over the years. At present, the partnership plays a secondary role. It is responsible for promoting the lotteries in Alberta, delivering the lottery tickets to distributors and transmitting to the Foundation the gross proceeds from the sale of lottery tickets, less a percentage retained by the distributors and retailers. The Foundation plays the role of general administrator of the lotteries. Its activities include receiving the proceeds of ticket sales from the partnership, paying administration costs and prize money, and distributing the net profits.

A legal opinion obtained by the Auditor General indicates that the proceeds from these lotteries fall within the definition of "public money" as defined in section 1(1)(p)(iv) of the Financial Administration Act. Section 19(1) of the Financial Administration Act states that all public money (apart from money over which the Legislature has no power of appropriation) shall be paid into the Province's General Revenue Fund, except "money that is otherwise specially disposed of by this or any other Act". The Interprovincial Lottery Act makes no "special disposition" of the lottery proceeds that would allow them to remain outside the General Revenue Fund, nor does it empower the license to do so.

In the view of the Auditor General, unless an appropriate amendment is made to the Interprovincial Lottery Act, the lottery proceeds should not continue to be handled and disbursed

as they are at present. The license and the related arrangements appear to be contrary to the legislative authorities to the extent that they purport to deal with lottery proceeds in a manner inconsistent with the Financial Administration Act.

Under existing legislation, it appears that lottery proceeds should be paid into the General Revenue Fund and any expenses or distributions from those proceeds charged to an appropriation of the Legislature. If it is considered desirable that lottery proceeds not be paid into the General Revenue Fund, then legislation should be enacted to create a special statutory fund or a provincial agency through which the receipt and disbursement of the lottery proceeds would pass. Alternatively, legislation should be enacted to provide that the money be "specially disposed of" so as to come within the exception in section 19(1)(b) of the Financial Administration Act.

In order for a lottery scheme to comply with section 190(1)(b) of the Criminal Code of Canada it is necessary that the Province manage and conduct the lottery and that it do so in accordance with provincial law enacted for that purpose. It is assumed that the Interprovincial Lottery Act is a validly enacted provincial law as contemplated by section 190(1)(b) of the Code since any person licensed under the Act to conduct and manage a lottery scheme in Alberta can, under the Act, only act as an agent of the Province. However, there is no specific reference to the Criminal Code in the Interprovincial Lottery Act and the legal opinion obtained by the Auditor General referred to earlier, recommends that in order to place the operation of provincial and interprovincial lotteries on a more secure basis, the provincial legislation be redrafted in terms of the authority provided by the Code.

Recommendation: (No. 6)

It is recommended that:

(a) in order to comply with section 19(1)(b) of the Financial Administration Act, all proceeds collected from lottery operations be deposited in the General Revenue Fund; and that all payments of costs of lottery operations and all payments to be regarded as distribution of the net profits from those operations be made pursuant to the authority of an appropriation of the legislature, or,

(b) if the above recommendation is regarded as impractical, consideration be given to revising the Interprovincial Lottery Act to permit the collecting, handling and distributing of lottery proceeds through a statutory fund or provincial agency or by some other method that would constitute an exception within section 19(1)(b) of the Financial Administration Act.

It is further recommended that consideration be given to revising the Interprovincial Lottery Act to indicate that this statute is based on the authority of section 190 of the Criminal Code of Canada.

2.3.11 METIS POPULATION BETTERMENT TRUST ACCOUNT

A moratorium on legislative changes is effectively preventing the resolution of various legislative irregularities pertaining to the establishment and administration of the Metis Population Betterment Trust Account.

The Trust Account operates pursuant to The Metis Betterment Act which, since 1980, has been administered by the Department of Municipal Affairs. Prior to that date, in 1974 the eight Metis Settlement Associations commenced legal action against the Province claiming revenue derived from oil and natural gas leases of the Crown lands on which the Metis Settlements are situated. The legal action is currently at the examination for discovery stage and pending its resolution, the Province has placed a moratorium on legislative changes to The Metis Betterment Act and to the regulations issued pursuant to the Act.

Recent annual audits have identified concerns relating to the adequacy of and compliance with the Trust Fund's legislative authorities. For this reason, the observed instances of non-com-

pliance with legislative authorities are reported hereunder, even though it is acknowledged that the aforementioned moratorium effectively precludes legislative changes at the present time.

— Alberta Regulation 112/60 was issued in April 1960 pursuant to The Metis Betterment Act and provided for the establishment of the Metis Population Betterment Trust Account. Recent legal opinions obtained by the Audit Office, however, state that the provisions of section 8 of the Act are too general to authorize the establishment of a trust account or other separate funds. It is generally acknowledged that very specific legislation is required to form a separate fund. This is borne out by section 19(1)(b) of the Financial Administration Act which states that all public money shall be paid into the General Revenue Fund "except money that is specially disposed of by this or any other Act."

  If section 8 of The Metis Betterment Act lacks the necessary "special authority", it follows that the part of Alberta Regulation 112/60 which purports to establish a trust fund would be ultra vires the Act. In which case, the Trust Account would not be legally constituted and the revenues received, payments made, assets acquired and liabilities incurred would all lack legislative authority.

— For the past few years, the Trust Account has been used to receive and hold grant monies paid from supply votes (e.g. for water and sewer system projects). Even if it were assumed that Alberta Regulation 112/60 was valid, there appears to be no legislative authority for the Trust Account to receive grant monies, because the regulation does not provide for it.

  Alberta Regulation 112/60 purports to allow for the establishment of a two part Trust Account. The revenues that may be credited to Part I of the Trust Account are defined in A.R. 112/60 and later regulations but do not include grants for water and sewer projects. Similarly, the revenues that Part II may receive are limited to profits or surpluses from community activities. Neither part of the Trust Account, therefore, appears authorized to receive and hold grant monies from various Alberta Government departments and to disburse such monies on water and sewage and similar projects for settlement associations.

  It is acknowledged that since the end of the 1983-84 fiscal year, steps have been taken to resolve this problem. In September 1984, Treasury Board Minute 143/84 authorized the establishment of the Metis Settlement Associations Grants Administration Fund to receive, hold and disburse the residue of grant monies improperly paid into the Metis Population Betterment Trust Account together with any future grant monies received. The Audit Office has been informed that the Metis Settlement Associations Grants Administration Fund was activated in December 1984 by transferring thereto the appropriate residue of monies from the Trust Account. It may be more appropriate, however, for such a fund to be established by an Act of the Legislature so that its transactions can comply with the Financial Administration Act.

— Section 4(3) of The Metis Betterment Act states that local boards of settlement associations shall consist of a chairman and two members all appointed by the Minister, plus two other members to be elected by secret ballot. Alberta Regulation 56/66 attempted to change this to require local boards to comprise only three members, all of whom would be elected by ballot. (In fact, it is understood that at present, local boards consist of five members, all of whom are elected by ballot.) It appears, however, that A.R. 56/66 is invalid because it is in conflict with the Act. Accordingly, members of local boards of settlement associations are not being appointed as required by the prevailing provisions of the Act.

— The Department of Municipal Affairs paid honoraria of $100 or $200 from appropriated funds to board members of settlement associations, though it appears to lack the legislative authority to do so. The legislation governing the payment of these honoraria would appear to be either inconclusive or flawed. While section 8(j) of The Metis Betterment Act appears to provide some general authority for regulations that could prescribe the payment of remuneration to members of local boards, the regulations cannot authorize any payments to members of local boards that are illegally constituted as a consequence of the invalidity of Alberta Regulation 56/66. Accordingly, even the payment of $3 per member per meeting,

as provided for in the Regulations, is unauthorized, quite apart from the lack of legislative authority for the payment of honoraria of $100 or $200.

The above observations are included in this report because it is believed that the actions and transactions outlined did not comply technically with the legislative authorities presently in force. Nevertheless, the Auditor General is satisfied that Departmental management has acted in good faith, and that the actions and transactions were based on common sense and represented a pragmatic approach to the situations encountered.

Recommendation: (No. 7) *(1982-83: No. 12)*

It is recommended that as soon as practicable, action be taken to resolve the various problems relating to non-compliance with the legislative authorities pertaining to the establishment and administration of the Metis Population Betterment Trust Account.

2.3.12 NON-COMPLIANCE WITH THE PUBLIC WORKS ACT

In his 1982-83 annual report (subsection 2.2.17), the Auditor General commented on situations in which the Departments of Environment and Transportation had allowed construction work to begin on contracts before formal contracts had been signed. In one case, a progress payment was also made before a contract was signed.

These actions contravened section 12(1) of the Public Works Act which states that:

> "No sum of money shall be paid to a contractor and, unless the Minister otherwise authorizes, no work shall be commenced on a contract until (a) the contract has been signed by the parties named in it, and (b) the required security and proof of insurance has been given."

The 1983-84 annual audits of the Departments of Environment and Transportation revealed no further instances of non-compliance with the Public Works Act. Such an instance, however, was revealed by the 1983-84 annual audit of the Department of Public Works, Supply and Services.

In that instance, although the Department had issued a letter of intent confirming acceptance of the contractor's bid and authorizing work to commence, a payment of $89,000 was made before a formal contract was executed.

Recommendation: (No. 8)

It is recommended that the Department of Public Works, Supply and Services take steps to ensure that, in future, it complies with section 12(1) of the Public Works Act when administering public works contracts.

2.3.13 NORTHERN ALBERTA INSTITUTE OF TECHNOLOGY

The Northern Alberta Institute of Technology has entered into a financial arrangement that will result in the expenditure of public money for which no tangible benefit will be received.

In March 1984, the Institute acquired the Patricia Campus for $2,800,000. The entire purchase was financed by a bank loan secured by depositing an equal amount of money with the bank. By agreement with the bank, the loan and the deposit reduce by fixed equal monthly amounts over the period of the loan. The agreement also allows the Institute to prepay the loan in whole or in part at any time but, because the interest rates applicable to the loan and the deposit are interrelated, a reduction of the loan must be accompanied by a corresponding reduction in the deposit. At the present time, the rate of interest charged on the loan is 0.68% per year higher than the rate of interest paid on the deposit.

This net interest paid by the Institute is, in effect, public money spent for which no tangible benefit is or will be received. Based on the balance of the loan outstanding at June 30, 1984, and assuming no change in the interest difference or monthly repayments, and no prepayments and deferrals, the net interest expense incurred over the period of the loan will amount to approximately $78,000.

The Audit Office has been informed that the Institute's Board entered into the loan arrangement because it wished to avoid charging the acquisition against the capital fund or the unappropriated operating surplus existing at the time of the purchase.

Section 22 of the Technical Institutes Act would seem to indicate that the approval of the Lieutenant Governor in Council is necessary before the Institute's Board of Governors borrows sums of money. No such approval was obtained prior to the Institute receiving the loan to finance the purchase of Patricia Campus. However, it could be argued that no approval was required on the grounds that section 22 only applies to borrowings by a technical institute that are secured by the issue of notes, bonds, debentures and other securities and that since this particular loan was secured by a single promissory note and a deposit it falls outside the scope of section 22. Due to the apparent uncertainties, consideration should be given to amending the legislation to clarify the wishes of the Legislature.

Recommendation: (No. 9)

It is recommended that the Northern Alberta Institute of Technology take steps to curtail the ongoing loss of public money arising from the financing arrangement entered into with the Institute's bankers to finance the acquisition of Patricia Campus.

Recommendation: (No. 10)

It is recommended that, in light of apparent uncertainties in the legislation governing the type of borrowings by technical institutes that require Lieutenant Governor in Council approval, consideration be given to seeking legislation amendments to clarify the wishes of the Legislature.

2.3.14 THE WORKERS' COMPENSATION BOARD

The Workers' Compensation Board calculated compensation payable to injured workers in a manner that did not comply with the Workers' Compensation Act.

Section 51 of the Workers' Compensation Act prescribes how compensation to injured workers must be calculated. It also describes how "actual net earnings" and "average net earnings" shall be used in calculating compensation.

During the annual audits for the years ended December 31, 1982 and 1983, it was observed that the Board's administrative practices for applying "actual net earnings" and "average net earnings" in the calculation of compensation did not comply with section 51 of the Act. This state of affairs was acknowledged by the Board in its financial statements.

Although applying the above-mentioned administrative practices resulted in non-compliance with the governing legislation (and the inclusion of the matter in this report) nevertheless, on the evidence available it appears that compensation paid to injured workers was not materially different than it would have been if there had been strict compliance with the Act. Furthermore, legislation has since been passed effective January 1, 1985 which thereafter allows the Board to seek regulations determining how the aforementioned factors shall be treated when calculating compensation for injured workers. Accordingly, a related recommendation in this report is not considered appropriate.

2.4 SYSTEMS WEAKNESSES AND DEFICIENCIES, AND INADEQUATELY SAFEGUARDED ASSETS (Reported pursuant to subsections 19(2)(c), (d) and (e) of the Auditor General Act)

Although an audit of financial statements need not include examining internal control systems beyond the examination necessary to determine the nature, extent and timing of other auditing procedures, the audit scope relating to internal control systems for most departments, funds and Provincial agencies is extended beyond what might otherwise be necessary to satisfy generally accepted auditing standards. Since the Auditor General Act allows the Auditor General considerable discretion when reporting on systems, the weaknesses and deficiencies reported hereunder are only those that were observed and which the Auditor General considers are significant and, therefore, should be brought to the attention of the Legislative Assembly.

2.4.1 ALBERTA HOSPITAL PONOKA

Alberta Hospital Ponoka has experienced difficulties developing adequate accounting and financial reporting systems since it became an autonomous entity in October 1982.

Until September 30, 1982, the Hospital was administered by the Department of Social Services and Community Health. Under that arrangement, much of its accounting data was processed by the Department's central systems and its operating revenues and expenditures were reported each year together with those of the Department in the financial statements of the Province's General Revenue Fund. Effective October 1, 1982, however, the Mental Health Amendment Act transferred administrative responsibility for the Hospital to an independent Mental Health Hospital Board. Among the changes this brought about were that the Hospital had to establish its own accounting systems and publish an annual report containing audited financial statements.

The Hospital's first financial statements under its new status were for the six month period ended March 31, 1983. The audit of those statements revealed numerous weaknesses and deficiencies in the accounting control and financial reporting systems. These concerns and recommendations for their elimination were discussed with Hospital Management during the audit and were summarized in minutes and in a management letter from the Auditor General to the Hospital's Senior Executive at the conclusion of the audit.

The Hospital's second audit was for the year ended March 31, 1984. That audit brought to light additional system deficiencies but also revealed that many of the problems identified by the previous audit had not been resolved.

The Auditor General's management letter to the Hospital's Executive Director at the conclusion of the 1983-84 audit contained the following concerns:

Personnel and Payroll

- The Hospital's human resources department was responsible for both the personnel and payroll functions. This arrangement is generally considered to conflict with the principles of sound internal control. Segregating the duties involved in these functions would provide a measure of assurance to Management that staff are unable to improperly initiate and obtain payroll cheques.
- Controls were lacking to ensure that all input documents were processed and that only authorized data was accepted by the computerized payroll system.
- The integrity of the information produced by the payroll system could be compromised by inadequate segregation of duties between staff responsible for initiating input data and staff responsible for processing that data. For example, the data processing manager was able to, and sometimes did, initiate payroll input documents.
- Time cards used to record hours worked and provide input information to the payroll system were not always appropriately authorized. For example, some alterations on time

cards were not approved or supported by the reasons therefor and, in some instances, time cards were not signed by the employees or by their supervisors.

— There were no written policies or procedure manuals governing compensating time off allowed for overtime worked by management and other staff not covered by collective bargaining agreements. Inconsistencies occurred in that some staff were allowed compensating time off while others were not.

— Senior staff of the Hospital's human resources department experimented with the payroll system using their own time cards. Documents relating to these experiments were processed during payroll cheque processing and resulted in the generation of unusual cheques, the cancellation of normal payroll cheques and the suppression of data on hours worked. The time cards processed were not authorized by anyone not involved with the experiments. Furthermore the experiments, despite their complexity and inherent risks, lacked appropriate prior approval and were inadequately explained when approval was sought at a later date. The audit revealed no evidence that a loss had accrued to the Hospital as a result of these experiments.

— Cheques were produced for retroactive pay before they were required, and pending their release or subsequent cancellation, the control exercised over the cheques was weak.

— Payroll deduction withholding accounts were not reconciled regularly.

— Computer generated error and exception reports lacked evidence of corrective action taken and supervisory review. In addition, records were not maintained showing whether corrections were processed.

— Inconsistencies occurred in the interpretation of pensionable and non-pensionable earnings for calculating contributions under the Local Authorities Pension Plan.

Capital Expenditure Grants

— During 1983-84, capital expenditures totalling $12,808 were charged to Hospital expenditures because claims were not submitted to the Department of Hospitals and Medical Care in time to receive capital grant funding otherwise available.

Accounts Receivable

— The Hospital lacked meaningful policies and procedures governing the follow-up and writing-off of accounts receivable. The accounts receivable records contained numerous long-standing balances, many relating to deceased or discharged patients. The allowance for doubtful accounts established at March 31, 1983 was not reassessed and updated to March 31, 1984 in recognition of subsequent events until requested by the Audit Office.

Fixed Assets

— The Hospital had not developed and established policies and procedures governing the control, safeguarding and accounting for fixed assets under its custody. Not all assets were tagged for identification or recorded in the equipment register.

Patient and Activity Funds

— The duties of staff involved in authorizing and recording transactions were not segregated in a manner designed to minimize the risk of improper transactions.

— Receipts were not issued for rehabilitation workshop sales.

— Occupational therapy canteen funds were used to cash cheques drawn on the patient remuneration fund.

— Proper records were not maintained for snack bar cash held for safekeeping by a senior staff member.

Electronic Data Processing

— The Hospital acquired a micro-computer and related software packages without first undertaking a proper study to determine and evaluate the rationale to support the acquisition, the benefits that were expected and the controls that would be required. At the conclusion of the 1983-84 audit, it was still unclear how the computer and software packages were to be used, and whether the Hospital would derive appropriate benefits from these acquisitions.

— With respect to the external computing facility used to process the Hospital's payroll, accounts payable and general ledger applications, the Hospital had not ensured that adequate security procedures were in effect to protect its programs and data.

Preparation of Financial Statements and Reports

— Although the Act makes the Hospital responsible for preparing its own financial statements, the March 1983 statements were prepared by the Audit Office. The March 1984 financial statements were prepared by the Hospital's accounting staff though numerous adjusting entries were requested by the Audit Office before the statements could be finalized.

— Following difficulties experienced while preparing the March 1983 financial statements, the Audit Office suggested that the Hospital prepare various schedules and working papers to facilitate preparation (and audit) of the March 1984 financial statements. Despite repeated reminders, these schedules and working papers were not forthcoming until their lateness had delayed considerably the finalization of the audited financial statements.

During 1984, changes have occurred among the Hospital's senior administrative staff. In addition, the Hospital's Executive Director, who was appointed in February 1984, has indicated that efforts are underway to address and eliminate the concerns raised during the past two audits.

Recommendation: (No. 11)

It is recommended that Alberta Hospital Ponoka immediately develop and implement appropriate accounting controls and financial reporting systems.

2.4.2 ALBERTA RESEARCH COUNCIL

Deficiencies continue to exist in the financial systems and accounting records of the Alberta Research Council.

The Alberta Research Council is a Provincial Corporation that provides research and technical services to private business and to government. Its revenues and expenditures for 1983-84 were $39 million and $37 million respectively, and it administers assets valued in excess of $34 million. Previous annual audits of the financial statements revealed deficiencies in the Council's financial systems and accounting records. These deficiencies were reported to the Legislative Assembly in the Auditor General's 1979-80, 1980-81, 1981-82 and 1982-83 annual reports (1982-83: subsection 2.5.1).

Over the years, progress has been made towards eliminating previously reported deficiencies. The Council's 1983-84 annual audit revealed that although the progress had continued, the following accounting and financial control deficiencies remained:

Fixed Assets

The Council acquires capital assets for use on individual research projects. Sometimes the research project contracts provide for the Council to receive title to these assets when the projects are complete, either automatically or at the project sponsor's discretion. March 31, 1984 was the fifth consecutive fiscal year-end at which the Audit Office was unable to obtain satisfactory assurance that all fixed assets recorded on the balance sheet belonged to the Council, and that none still belonged to project sponsors.

The Auditor General reserved his opinion on the Council's 1983-84 financial statements stating that since the Council did not identify those fixed assets to which it may not have title, he was unable to determine if any adjustment might be required to the balance sheet to adjust fixed assets and contributed surplus to reflect ownership of the assets.

Research Projects

The Council undertakes research projects sponsored by private business and government entities. These projects are governed by contracts between the Council and project sponsors. The 1983-84 annual audit revealed that the system used to monitor and control research projects continued to be inadequate in that it lacked controls to ensure that labour and related overhead costs were charged correctly to projects. Management is confident, however, that a new computer-based project accounting system implemented after March 1984 will eliminate this control deficiency.

Project Contracts

In 1981-82, the Council established policy guidelines governing the form and content of research project contracts. Contracts entered into before then were sometimes poorly drafted, often being silent on such important matters as the amount of time chargeable to the sponsor, the disposition of assets acquired for the project, the allocation of overhead costs, and the treatment of supplementary and escalatedcosts. The 1983-84 annual audit revealed that problems were still being experienced in achieving effective control over projects operating under contracts entered into before the policy guidelines were established.

Inventories and Expenditures

The 1983-84 annual audit revealed that although controls were still not in place to ensure that the Council receives credit for goods returned to suppliers, all other previously reported deficiencies relating to the ordering, receipt and payment of goods and services had been eliminated. The audit also revealed that previously reported deficiencies related to the custody and use of materials and supplies inventories still existed. Lack of controls in this area makes it difficult for the Council to accurately monitor all project assets and expenses.

General

The Auditor General acknowledges the progress made so far towards eliminating deficiencies in the financial systems and accounting records revealed by past audits. In view of the deficiencies that remain, however, the Auditor General's recommendation is repeated.

Recommendation: (No. 12) *(1979-80: No. 45)*

It is recommended that the Alberta Research Council continue with the action necessary to eliminate the remaining financial control problems in its fixed assets, research projects, project contracts, inventories and expenditure systems.

2.4.3 DEPARTMENT OF ENERGY AND NATURAL RESOURCES

The Department of Energy and Natural Resources has made significant progress in addressing previously reported deficiencies in the system it uses to collect and control natural gas royalties. Some problems still remain, however, and certain control and verification procedures continue to be in arrears.

The Department is responsible for collecting and controlling the Province's share of royalties on natural gas and natural gas by-products. Although the Province's revenues from this source have decreased slightly in recent years, they are still almost two billion dollars per year. Hence the importance to Departmental Management and the Province of the system used to administer these revenues, both now and in future.

The Auditor General first brought these system deficiencies to the attention of the Legislative Assembly in his 1981-82 annual report. In his 1982-83 annual report (subsection 2.5.2), he described the progress made by the Department towards eliminating the deficiencies and the problems that still remained.

The 1983-84 annual audit revealed that the Department had continued to address the previously reported problems and that further progress had been made. In particular, the mineral tax subsystem of the Department's major new computer-based Mineral Revenue System was implemented in March 1984. Development and testing of other subsystems also continued during the year and the oil subsystem was implemented during 1984-85. The subsystem to be used to control and record natural gas royalties has been developed and is scheduled for implementation during the 1985-86 fiscal year.

Meanwhile, the Department has continued with its efforts to improve and bring up-to-date the control procedures previously reported as being deficient or in arrears, as follows:

— During 1981-82, the Department's procedures for verifying the accuracy of information on monthly gas royalty reports was significantly in arrears. These monthly reports are submitted to the Department by Crown lessees and show how gas royalties are calculated. By comparing the information on monthly reports with the Department's data on the wells concerned and with data on gas gathered provided by the Energy Resources Conservation Board, the Department obtains assurance that the Crown share and production rate information on monthly reports is correct, and that reports are received for all producing wells. These procedures also help to ensure that the Province receives the gas royalty revenue to which it is entitled. If the procedures are significantly in arrears, their effectiveness is reduced considerably.

  The 1982-83 annual audit revealed that although these verification procedures were not completely up to date, significant progress had been made, and was being made, towards performing them on a timely basis. The 1983-84 annual audit revealed that the progress had been maintained.

— During 1981-82, adjustments to gas royalties payable caused by adjusting actual gas cost allowances (GCAs) were significantly in arrears. GCAs are estimated by Crown lessees and deducted from gross royalties when calculating royalties payable on monthly gas royalty reports. After each year end, when allowable costs are determined and certified, they are substituted for the estimates and the amount of royalty payable is adjusted accordingly. Depending on the accuracy of the original estimates, these adjustments result in additional royalty payable or a royalty credit or repayment.

  Following the progress previously reported during 1982-83, reconciliations for the 1982 year were completed in September 1984. At the conclusion of the 1983-84 annual audit the Department was making every effort to bring the 1983 and 1984 reconciliations and adjustments up-to-date in preparation for implementing the new gas administration arrangements (see below) planned for 1985.

— During 1981-82, gas volume verification procedures were significantly in arrears. The Department attempts to reconcile volumes of gas and by-products sold, as recorded on the monthly reports, with industry plant allocation statements. This procedure is designed to provide assurance that all gas and by-products produced are reported to the Department.

  Following the progress previously reported during 1982-83, reconciliations for the 1982 year were completed in September 1984. At the conclusion of the 1983-84 annual audit the Department was making every effort to bring the 1983 and 1984 reconciliations up-to-date.

In his 1981-82 and 1982-83 annual reports, the Auditor General commented on the extreme complexity of the regulations governing the calculation and payment of gas royalties. In August 1983 the Department initiated a gas administration project to review the requirements for calculating, verifying, collecting and reporting gas royalties and to seek more efficient and less complex ways of handling these functions. Since then, the Department has held numerous

meetings with industry and government representatives. The information thus obtained was used to develop new gas administration procedures that were implemented effective January 1, 1985.

The Auditor General acknowledges the action taken by the Department. However, pending implementation of the remainder of the new Mineral Revenue System and an assessment of the effectiveness of the new gas administration procedures, the recommendations are repeated, though in slightly modified form.

Recommendation: (No. 13) *(1981-82: No. 20)*

It is recommended that the Department of Energy and Natural Resources implement the Department's newly developed system to record, monitor and control royalty revenues from natural gas and natural gas by-products. The Department should also continue to bring up to date the verification of its existing data.

2.4.4 DEPARTMENT OF HOSPITALS AND MEDICAL CARE

In his 1981-82 and 1982-83 annual reports (1982-83: subsection 2.3.1), the Auditor General commented on a number of irregularities that had been observed in the procedures used by the Department of Hospitals and Medical Care to process grants paid to hospitals.

In response to the Auditor General's recommendation that the Department strengthen its procedures to avoid grant-processing irregularities in future, the Provincial Treasurer stated in a report to the Select Standing Committee on Public Accounts in October 1984:

> "During 1983-84, changes in controls together with a reinforcement of existing controls strengthened the department's procedures for payment of operating grants to hospitals. A committee has been established to further review the payment procedures and the related controls to determine whether additional or improved controls are required."

During the 1983-84 annual audit of the Department of Hospitals and Medical Care, no further irregularities were observed in grant payments to hospitals. For this reason, and in view of the action taken by the Department, the Auditor General's recommendation is not repeated in this report.

2.4.5 DEPARTMENT OF SOCIAL SERVICES AND COMMUNITY HEALTH

Some of the Department of Social Services and Community Health's systems do not provide the information needed to administer certain of the Department's activities.

Vocational Rehabilitation of Disabled Persons

The Department disburses grants to community agencies for the operation of vocational training centres and other agencies concerned with vocational development of adults. During 1983-84, these grants totalled $17.2 million. During the 1983-84 annual audit, it was observed that the Department lacked adequate systems for ensuring that grants are calculated and disbursed in accordance with approved criteria, and for determining whether funded agencies are operating as contemplated in legislation. In particular, it was noted that:

- no evidence was available to indicate that the Department verifies the accuracy of rental costs (eg. by examining lease agreements) submitted by private agencies and used as a basis for calculating grant payments;
- funding for private agency staff salaries and maintenance costs is calculated based on the space available to the agencies, rather than on the space utilized. This could result in overfunding where agencies occupy space that is surplus to their requirements;

— the Department has not established procedures for identifying situations where the grant monies disbursed are found to be surplus to an agency's requirements;

— the Department has not issued standards and guidelines governing the preparation and submission to the Department of agency budgets. In addition, audited financial statements are not obtained from the agencies.

Recommendation: (No. 14)

It is recommended that the Department of Social Services and Community Health issue standards and guidelines governing the preparation and submission to the Department of budgets and audited financial statements for vocational training and rehabilitation agencies. The Department should also have adequate systems for monitoring compliance with such standards and guidelines, and for ensuring that grants paid to these agencies are in accordance with established criteria.

Provincial Laboratory of Public Health

For many years, the Department of Social Services and Community Health has funded the operations of the Provincial Laboratory of Public Health. Recently, funding has been provided under the Department's General Health Services Program by way of grants (1983-84: $8.5 million) paid to the University of Alberta. The grant monies are held by the University as "restricted funds" and are used to pay the Laboratory's operating and administration expenses.

During the Department's 1983-84 annual audit, it was observed that the legislative status of the Provincial Laboratory is somewhat unusual. Its establishment and objectives appear to have been authorized by an Order in Council obtained by the Minister of Agriculture in 1907. That Order in Council has long since been rescinded and the Laboratory's objectives and functions today are very different from those established in 1907. In many ways, the Laboratory now operates in a manner similar to a Provincial agency. The main difference, however, is that it does not appear to be operating under the authority of an Act of the Legislature.

The Department has established a committee to review and make recommendations concerning the appropriateness of the Laboratory's duties and objectives, its operating authorities and its accountability structure. The target date for implementing the committee's recommendations is July 1986.

Recommendation: (No. 15)

It is recommended that the Department of Social Services and Community Health proceed with its efforts to resolve the uncertainties concerning the operations and legislative status of the Provincial Laboratory of Public Health. Pending resolution of the uncertainties, the Department should consider formally accepting responsibility for the Laboratory's operations.

Alberta Dental Association

Deficiencies exist in the contract arrangements between the Department of Social Services and Community Health and the Alberta Dental Association (A.D.A.), and in the systems and procedures used by the Department to administer the contract.

The A.D.A. has contracted with the Department to perform various administrative duties in connection with claims for dental services provided by its members that are to be paid for by the Department. These duties include paying A.D.A. members for dental services provided (out of an advance from the Department), and submitting to the Department monthly summarized billings covering claims paid.

The Department's 1983-84 annual audit revealed the following:

— The contract between the Department and the A.D.A. requires the Department to reimburse the A.D.A. for costs associated with the administrative duties performed. The contract, however, does not specify the maximum costs nor the nature of the costs that are reimbursable. For 1983-84, the Department budgeted $156,000, though the amount eventually reimbursed exceeded $255,000.

— The contract requires the A.D.A. to provide each year an audited statement of administrative costs claimed for reimbursement. The contract, however, does not require the A.D.A.'s auditor to report on the A.D.A.'s compliance with the terms of the contract, nor on the reasonableness of the apportionment of administrative costs between activities relating to the Department and the A.D.A.'s other activities.

— During 1983-84, the Department paid the A.D.A. $15.2 million for dental services provided by A.D.A. members. The Department, however, had no system for determining whether the services paid for were restricted to those services specified in the contract. For example, the Department had not taken steps to determine the reasonableness of the dental procedures performed, the costs of such procedures, and the volume of work performed by each dentist. Information of this nature would appear to be an essential prerequisite to controlling and evaluating the appropriateness and costs of dental services provided and to planning and budgeting future program activities.

— Although the contract allows the Minister to require an audit of dental service expenditures, no such audit was requested. Furthermore, no audit or similar evidence was obtained to assure the Department that:

  — reasonable and adequate control is exercised over the handling and management of monies advanced to the A.D.A.,

  — earnings from advances are properly accounted for, and

  — advances from the Department are held and administered separately from the A.D.A.'s funds.

Recommendation: (No. 16)

It is recommended that the Department of Social Services and Community Health establish procedures and obtain the information it needs to ensure that it pays the Alberta Dental Association only for dental services that are valid, eligible and reasonable. In addition, future contracts negotiated with the Association should define more precisely the administrative costs that are eligible for reimbursement, and the manner in which monies advanced to the Association shall be managed and accounted for.

Child Welfare Payment and Information System

Improvements are needed in the systems used by the Department of Social Services and Community Health to administer certain aspects of the Child Welfare Program. The Department's 1983-84 annual audit revealed the following concerns:

— Significant variances occurred between budgeted and actual program costs incurred at some of the Department's District Offices. In addition, the cost per child of providing care for children in foster homes varied considerably from District to District. The Department had not investigated and explained these variances.

— The requirements of the Child Welfare Program Manual are not strictly adhered to. In some instances, case files do not contain the documentation required by the Manual and the client index contains names and numbers that do not match. Some case files were deficient in that they did not show that the child's progress had been reviewed every three months as required by the Manual.

— With respect to payments to and on behalf of foster parents:

  — payments are sometimes made based on photocopies of vouchers, rather than on original documents. This practice can result in payments being duplicated;

  — blank vouchers are sometimes given to foster parents to be used to pay for certain items (eg. prescription costs), leaving the vendor to fill in the description and amount;

  — monthly claims for foster care are sometimes approved by the Department's Regional Office staff, instead of by case-workers familiar with the child's foster home and circumstances;

— **letters authorizing the purchase of special items by foster parents are sometimes signed by Regional Office staff, instead of by the responsible case-workers.**

Recommendation: (No. 17)

It is recommended that the Department of Social Services and Community Health review and where necessary improve the Child Welfare Payment and Information System to ensure that:

— *it meets the Department's information needs, including providing explanations for variances between budgeted and actual costs,*

— *case-workers, administrative staff and case files comply with the requirements of the Department's Child Welfare Program Manual, and*

— *that payments for goods and services supplied are properly authorized, documented and not duplicated.*

2.4.6 DEPARTMENT OF SOCIAL SERVICES AND COMMUNITY HEALTH

In his 1980-81, 1981-82 and 1982-83 annual reports (1982-83: subsection 2.2.8), the Auditor General commented on continued weaknesses in the systems used by the Department of Social Services and Community Health to prevent and recover public assistance overpayments. He recommended that the Department continue with efforts to strengthen its control procedures. Particular concern was expressed with respect to procedures used to ensure that information on social allowance recipients' files is complete and up-to-date, and procedures used to ensure prompt preparation and processing of data decision sheets.

The 1983-84 annual audit revealed that the Department recently implemented a new computer-based system to administer its social allowance program. The system is designed to facilitate the validation and processing of data decision sheets on a more timely basis than was possible in past years. This and other procedures introduced by the Department should help to ensure that social allowance recipients' files are complete and up-to-date. In addition, recipients' records are being verified in more detail in an effort to detect and prevent errors and irregularities.

The Auditor General is satisfied that the Department is devoting more care and attention to preventing and recovering public assistance overpayments and, accordingly, the recommendations are not repeated in this report.

2.4.7 DEPARTMENT OF TRANSPORTATION

The Department of Transportation has eliminated many of the previously reported deficiencies in its financial controls and accounting systems, and is addressing those that remain.

In his 1981-82 annual report, the Auditor General commented on a number of system deficiencies observed during that year's annual audit, some of which had persisted for several years. In his 1982-83 annual report (subsection 2.5.3), the Auditor General acknowledged the progress made in addressing these deficiencies, but noted that many still persisted.

The 1983-84 annual audit revealed that several more of the previously reported concerns had been eliminated. In a management letter to the Deputy Minister of Transportation at the conclusion of the audit, the Auditor General acknowledged this progress and commented on the concerns that remained:

Revenue and Accounts Receivable

During 1983-84, the Department strengthened considerably the procedures it uses to account for and control revenue derived from airport space, property rentals, surplus sales of materials

and federal government cost-sharing claims. One result of this improvement was that it brought to light that an airport lease rental had not been billed for 1982-83; this omission was subsequently corrected. The audit also revealed, however, that the Department still lacked adequate procedures to ensure that its Accounting Operations Division receives all the information needed to control and bill cost recoveries on construction projects and bridge repairs.

Expenditure and Accounts Payable

The Department was continuing to develop a Regional Transportation Financial Reporting and Control System. The system is designed to improve significantly the Department's financial and management information on major repair and construction projects. The first module of the system is scheduled for implementation in April 1985 and the full system is expected to be operational by April 1987.

Fixed Assets

During 1983-84, there were no significant improvements in the control exercised over the Department's fixed assets that are not part of the Revolving Fund. Although a review of the fixed asset procedures in the divisions was initiated during the year, it was designed to evaluate the systems, rather than solve problems. The previously reported control deficiencies persisted in that there were no Departmental fixed asset guidelines for regions, districts and branches.

In particular, there were no effective procedures for identifying and dealing with lost, obsolete and surplus assets.

General

Most of the other significant weaknesses and deficiencies revealed by previous audits and referred to in the Auditor General's 1982-83 annual report were addressed and/or eliminated by the Department during 1983-84.

In conclusion, although the Auditor General acknowledges the significant progress made by the Department in eliminating many previously reported system deficiencies, his recommendation is repeated pending elimination of those deficiencies that remain.

Recommendation: (No. 18) *(1981-82: No. 40)*

It is recommended that the Department of Transportation continue with efforts to improve its financial controls and accounting systems.

2.4.8 DEVELOPMENT OF ELECTRONIC DATA PROCESSING SYSTEMS

In his last three annual reports, the Auditor General commented on deficiencies in procedures used by many departments and agencies to develop new EDP systems. In response to the Auditor General's recommendations, Treasury Board Directives and related procedural instructions have been issued governing the responsibilities involved in planning, approving, developing and implementing major new EDP systems. In addition, the Office of the Controller and the Department of Public Works, Supply and Services have established procedures to monitor these activities. Moreover, the Budget Bureau reviews operational and strategic authorities as part of its annual expenditure budget reviews.

In his 1982-83 annual report (subsection 2.3.3), the Auditor General stressed the importance of senior management involvement in the development of EDP systems. The Auditor General recommended that senior management increase its involvement in preparing and implementing EDP development plans to ensure that the plans contain adequate detail and rationale to enable EDP resources to be applied economically and efficiently in the attainment of program objectives. Directives and procedures have since been established to require and monitor this involvement.

As a normal part of its work, the Audit Office will continue to review the methods used to plan, approve, develop and implement new EDP systems, as well as the extent of senior management's involvement therein. This will apply to all Provincial entities including the Provincial agencies and corporations not subject to the Treasury Board Directives referred to above. However, in view of the action taken so far in response to the Auditor General's previous recommendations, the recommendations are not repeated in this report.

2.4.9 HEALTH CARE INSURANCE FUND

During 1983-84, accounting control over the Health Care Insurance Fund's premiums receivable was seriously impaired. This occurred following revisions to the computer systems used to record and control collections of employer-group premiums.

Two divisions of the Department of Hospitals and Medical Care are responsible for the day-to-day administration of the Health Care Insurance Fund. The Health Care Insurance Division is responsible for general administration including registration, claims and data processing systems. The Department's Finance and Administration Division is responsible for maintaining the Fund's accounting records and preparing its financial statements.

Control Over Employer-Group Premiums Receivable

The billing portion of the Fund's computerized employer-group premiums receivable system was substantially revised and, in August 1983, data conversion from the old system to the new system began. The data for a number of groups was converted each month and by February 1984, except for the accounts of those employers who submit their data in machine-readable form, the conversion process was complete.

At a meeting in February 1984, the Audit Office was assured that information produced by the old system would be used to support the Fund's general ledger from which the March 31, 1984 financial statements would be prepared. The 1983-84 annual audit was planned and commenced based on that assurance.

It became apparent during the audit, however, that the March 31, 1984 premiums receivable trial balance and the general ledger balance at that date were both incorrect. Further enquiry revealed that considerable confusion existed due to misunderstandings between the two Divisions regarding details of the conversion process and how the information produced by the two systems should be used. In an attempt to isolate the problems, the Audit Office reviewed the conversion process but was hampered by incomplete records and was informed that much of the documentation related to the process had not been retained. A considerable amount of Audit Office time and effort was needed before sufficient information was obtained and the Department effected the accounting adjustments necessary to reflect an accurate financial position at March 31, 1984.

Recommendation: (No. 19)

It is recommended that the Department of Hospitals and Medical Care establish procedures to ensure that the Finance and Administration Division of the Department is actively involved in all revisions or additions to information processing systems of the Health Care Insurance Fund that have accounting or financial implications. In addition, procedures should be established requiring:

- ***regular reviews of the Fund's reports and records to monitor financial transactions and accounting balances so that unusual situations and fluctuations can be identified without delay,***
- ***production each month of receivable trial balances and prompt reconciliation of such trial balances to the related general ledger accounts, and***

— *retention of sufficient documentation to support reconciliations, transactions and adjusting entries related to the billing, collection, control and recording of health care premium revenue.*

Control Over Operation, Maintenance and Revisions of Systems

The 1983-84 audit included a review of the design and operation of certain of the Fund's EDP systems. In some cases, it was difficult to locate the necessary documentation and information or staff who were knowledgeable about the operation of the systems under review. It appeared that duties and responsibilities of staff were often changed with the result that some staff were unfamiliar with the systems they were using and/or supposedly controlling. It also appeared that the Department's Finance and Administration Division had experienced similar difficulties when attempting to obtain information about system changes.

The above and other concerns noted during the audit led the Audit Office to conclude that the potential exists for problems with the Fund's systems to remain undetected or unresolved for extended periods of time. It was also concluded that system changes can be made without adequate consideration of the implications of those changes for other divisions of the Department. The matters described above under the heading "Control Over Employer-Group Premiums Receivable" resulted, in part, from inadequacies in control over the implementation of systems changes. Although a Steering Committee has been formed recently to review the progress and status of system changes, such a Committee is unlikely to deal with the many matters of detail that require attention when complicated systems are changed or major new systems are developed.

Recommendation: (No. 20)

It is recommended that the Department of Hospitals and Medical Care take action to ensure that the computerized systems of the Health Care Insurance Fund are operated, controlled and managed by properly trained and knowledgeable staff and that systems changes are made only after all implications have been considered. In particular, the Systems and Data Processing Branch should ensure that:

— *documentation is available to provide staff with comprehensive and current information on the operating procedures and features of all computerized systems,*

— *all divisions of the Department that have responsibilities relating to the Health Care Insurance Fund receive prior notification of proposed system changes. This would enable concerns and implications that may not be readily apparent to staff responsible for making the changes to be raised and considered before the changes are made,*

— *all system changes are fully documented.*

In addition, there should be sufficient co-ordination between the Systems and Data Processing Branch and the users of the various systems to ensure that:

— *staff changes are made in a controlled and systematic manner so that, wherever possible, duties and responsibilities are assigned only to staff with sufficient training and competence to discharge them,*

— *conversion procedures and details of control totals and reconciliations are fully documented and retained.*

2.4.10 INTEREST EARNED ON GRANT MONIES

In his 1982-83 annual report (subsection 2.2.13), the Auditor General commented on the need for guidelines covering the treatment of interest earned by recipients on unspent grant monies. These comments applied particularly to circumstances where conditional grants were paid to municipalities or other recipients before they needed to be spent for the purposes prescribed

in the grant agreements. Interest earned by the grant recipient on these monies was treated in several different ways, and most grant agreements were silent on how such interest should be treated, or indeed, on whether such circumstances should be allowed to occur.

In a report to the Select Standing Committee on Public Accounts in October 1984, the Provincial Treasurer indicated general agreement with the Auditor General's recommendations. In December 1984, the Treasury Department's Manual of Financial Administration was updated to require grant agreements to specify how and when the grant monies are to be paid. In particular, the Manual now states that "Where large grants are paid prior to actual need the agreement should specify how the money should be held and the disposition of interest earned. Normally the money from grants should be held separately from the recipient's other funds in an interest bearing account or term deposit. Interest so earned may be retained by the grant recipient if used for the same purposes as the grant, otherwise the agreement should provide for paying the interest to the department. Interest received in this manner should be treated as revenue."

In view of the action taken, the Auditor General's recommendations are not repeated in this report. In future, the Audit Office will check for compliance with these requirements and guidelines.

2.4.11 INVESTMENT OF SURPLUS FUNDS

Current legislation still precludes some Provincial agencies from availing themselves of the advantages of investing surplus funds in the Province's Consolidated Cash Investment Trust Fund (CCITF).

The Colleges Act and the Technical Institutes Act state that Boards of colleges and institutes that operate pursuant to those Acts shall keep their funds in chartered banks, treasury branches, trust companies or credit unions. Other Provincial entities operate pursuant to statutes that impose similar restrictions on the placement of funds.

In his 1979-80 and again in his 1982-83 annual report (subsection 2.2.14), the Auditor General commented on the need for some Provincial agencies to improve their procedures and strategies for investing surplus funds. The agencies concerned were certain public colleges, technical institutes, universities and hospitals that are exempt from the banking arrangements specified by the Financial Administration Act. Some of the difficulties were contributed to by small agencies having insufficient staff to devote the time and attention needed to manage temporarily surplus funds in a way that maximizes investment yield while at the same time maintaining the liquidity needed for day-to-day operations. Even so, significant amounts of investment income can be forgone unless surplus funds are managed properly. For example, the balance sheets of the Province's ten public colleges and three technical institutes showed that at June 30, 1983, $22 million out of total cash on hand of $70 million was held in bank accounts generating only minimal interest revenue.

The Auditor General believes that some of these problems can be resolved by allowing entities that so desire to invest their surplus funds in the CCITF. The CCITF is a fund administered by the Treasury Department which pools the funds of a number of approved depositors in order to maximize the investment yield available to each depositor while at the same time providing daily liquidity. It would appear, therefore, ideally suited to satisfying the cash management needs of many smaller agencies with surplus funds to invest.

In his 1982-83 annual report, the Auditor General recommended that the Government consider removing the legislative impediments that currently preclude certain agencies participating in the CCITF. In a report to the Select Standing Committee on Public Accounts in October 1984, the Provincial Treasurer responded to the Auditor General's recommendation as follows:

> "The Government concurs with the recommendation. Where appropriate, Provincial agencies will be granted legislative authority to allow them the option of utilizing the services

of the Consolidated Cash Investment Trust Fund to maximize investment yield while maintaining liquidity of funds surplus to immediate needs."

Although the Provincial Treasurer has stated that the Government concurs with the Auditor General's recommendation, the necessary legislative changes have yet to be effected and, accordingly, the recommendation is repeated.

Recommendation: (No. 21) *(1982-83: No. 10)*

It is recommended that, where appropriate, Provincial agencies be granted legislative authority to allow them the option of utilizing the services of the Consolidated Cash Investment Trust Fund to maximize investment yield while maintaining liquidity of funds surplus to immediate needs.

2.4.12 LAND TITLES OFFICE – CALGARY

On September 24, 1984, the Calgary City Police arrested three senior officers of the Calgary Land Titles Office. The three were charged on September 25, 1984 that "between January 1, 1982 and September 24, 1984 (they) did steal, property of her Majesty the Queen in the right of the Province of Alberta, of a value exceeding $200, contrary to Section 294(A) of the Criminal Code", and "between January 1, 1982 and September 24, 1984 (they) did by deceit, falsehood or other fraudulent means defraud her Majesty the Queen in the right of the Province of Alberta of cash of a value exceeding $200 contrary to Section 338(1) of the Criminal Code". In addition, one of the three officials was charged that "between January 1, 1982 and September 24, 1984 (he) did have in his possession proceeds of property to whit; cash, of a value exceeding $200 knowing that all the proceeds of the property was obtained by the commission in Canada of an offense punishable by indictment contrary to Section 313(A) of the Criminal Code".

Subsequent to the charges being laid, the Audit Office and the Department of the Attorney General co-operated with the Calgary City Police in their investigation.

As the matter is now before the Courts, it is considered inappropriate to comment further on these events at this time.

2.4.13 MANAGEMENT CONTROL OVER CAPITAL PROJECTS

In his 1982-83 annual report (subsection 2.4.4), the Auditor General commented on the need to strengthen the control exercised by management over the Province's major capital construction projects.

To this end, he recommended that financial control and reporting systems used by departments, funds and Provincial agencies to administer major capital construction projects be designed to provide, as a minimum, the following information to senior management on a prompt and frequent basis for each project and its components:

- Comparisons of the originally approved project budget to the most recently approved project budget, with details of increases and decreases resulting from inaccurate estimating, project scope revisions, price escalation or other relevant factors;
- Comparisons of total contract amounts to the corresponding portion of the most recently approved project budget;
- Comparisons of the latest cost estimates for project components, that have not yet been committed to contract, to the corresponding portion of the most recently approved budget;
- Analyses and comparisons of the following ratios and an explanation of their effect on the approved project budget:

(a) costs incurred to date as a percentage of the total contract amounts;

(b) work performed as a percentage of the latest revised quantity estimates for the total work required;

— Analyses of the impact of any significant event, such as a change in the scope of the project or a delay in the completion of a component of the project, on the estimated cost to completion for both committed and uncommitted project components.

The Auditor General also recommended that, in order to reduce the risk of decisions being made on the basis of inadequate or misleading information, financial information flowing from each major capital construction project as well as the methods and assumptions used in preparing cost and quantity estimates, upon which senior management relies when making policy decisions and when evaluating project progress, be regularly reviewed by persons with financial and technical expertise who are independent of the project manager.

In a report to the Select Standing Committee on Public Accounts in October 1984, the Provincial Treasurer stated that the Government agrees with both recommendations. He also stated that the Controller has advised senior financial officers to review financial control and reporting systems used to administer capital construction projects, and of the need for frequent and independent reviews of project control information.

Development of the aforementioned recommendations and the Government's formal acceptance of them has effectively established criteria against which the adequacy of financial reporting and control systems used to administer capital construction projects can be assessed. These criteria should be useful to managers seeking assurance that the project control information they use and need is reliable. Finally, the Government's acceptance of the criteria will form a basis for reports by the Auditor General to management, and where appropriate to the Legislative Assembly, when situations are observed where the criteria are not being satisfied.

In view of the Government's response and the action taken, the Auditor General's recommendations are not repeated in this report.

2.4.14 MONITORING CONDITIONAL GRANT EXPENDITURES

In previous annual reports, the Auditor General has commented on the way in which departments and Provincial agencies disburse and monitor the disposition of conditional grants. In this context, conditional grants are grants that impose on the recipient a duty to use the monies for the purposes specified in the grant agreement. It is generally agreed that departments or agencies that disburse conditional grants are responsible for obtaining reasonable assurance that the recipients spend the grant monies received for the specified purposes. The assurance considered reasonable and how such assurance is obtained depends on the nature and purpose of the grants and is largely at the discretion of the disbursing entities. While some entities prefer physical verification, follow-up evaluation or audits by their own officials, many choose to rely to some extent on information supplied by the grant recipients, usually attested to by an independent and qualified auditor.

In the view of the Auditor General, this latter method of gaining assurance is appropriate in most circumstances, provided that the auditor is independent and qualified and that the audits are conducted in accordance with generally accepted auditing standards. Accordingly, in his 1982-83 annual report, the Auditor General recommended that when such assurance is sought, the auditor's examination and report should be in accordance with the standards and requirements contained in section 5815 and, where necessary, section 5805, of the Canadian Institute of Chartered Accountants' Handbook.

In December 1984, the Treasury Department's Manual of Financial Administration was amended to include the requirements suggested by the Auditor General and, accordingly, the recommendation is not repeated in this report.

Department of Transportation

The Department of Transportation appears to place undue reliance on the auditors' certificates it obtains (in the originally prescribed form) to satisfy itself that grants disbursed under the Urban Transportation Financial Assistance Program are expended for the purposes for which they were intended. This matter was commented on in the Auditor General's 1982-83 annual report (subsection 2.2.9).

During 1982-83 and 1983-84, the Department of Transportation disbursed operating and capital grants totalling $209 million and $165 million respectively under the six year Urban Transportation Financial Assistance Program that terminates on March 31, 1985. The purpose of these grants is to provide technical and financial assistance to urban municipalities for the establishment of local roads and streets, and public transportation systems serving intra- and inter-regional needs. Grants are disbursed pursuant to grant agreements and the Department's administrative procedures manual. As the administrator of the program, the Department is responsible for monitoring the ultimate expenditure of grants to ensure that they are spent in compliance with the terms of the grant agreements and the administrative procedures manual.

In administering the present program, the Department reviews applications for funding to ensure that the project to be funded meets the program's eligibility criteria. In addition, when funding is provided, its adequacy is reviewed by the Department at least every two years. The municipalities, however, manage and administer the projects. Accordingly, the Department requires project costs to be audited by the municipalities' auditors and relies on "certificates of audit" provided by the municipalities' auditors. These certificates of audit are required, by the Department's administrative procedures manual, to contain the auditors' opinion as to whether or not the municipalities' financial statements present fairly the funding and expenditures provided in the conditional grant agreement. However, they are not required to contain an auditor's opinion as to whether the municipality has complied with the grant agreement and the administrative procedures manual. The auditor of one major funded project who was contacted by the Audit Office was not aware of the existence of the newest administrative procedures manual that had been issued more than one year previously.

In the view of the Auditor General, the form of the audit certificates required by the administrative procedures manual and therefore obtained by the Department during the 1982-83 and 1983-84 fiscal years did not provide the Department with adequate assurance that grants under the Urban Transportation Financial Assistance Program were expended for the purposes for which they were intended.

In management letters to the Deputy Minister of Transportation at the conclusion of the 1982-83 and 1983-84 audits, the Auditor General recommended that municipal auditors be required in future to provide more positive assurances relative to the treatment of conditional grant receipts and expenditures. He suggested that the Department's administrative procedures manual be amended to require auditors to report to the Department on municipalities' compliance with the terms and conditions of the grant agreement and the administrative procedures manual. The auditor should issue a report that contains an opinion (not negative assurance) on compliance in accordance with the standards contained in the Canadian Institute of Chartered Accountants' Handbook. Similar recommendations were also made in the Auditor General's 1982-83 annual report to the Legislative Assembly.

In response to the Auditor General's recommendations, the Department stated that it is reviewing the grant agreements and control procedures with a view to simplifying the process. It appears, therefore, that the new financial assistance program may not need the same form of assurance. Since the new program may be significantly different, the Auditor General's recommendations are not repeated in this report.

2.4.15 PENSION ADMINISTRATION

The Auditor General's annual reports for the past four years (1982-83: subsection 2.5.5) have described the progress made towards eliminating numerous accounting and financial control deficiencies in the systems used by the Treasury Department to administer the Province's pension plans. These deficiencies were first reported to the Legislative Assembly following the 1978-79 annual audit.

The 1983-84 annual audit revealed that good progress had again been made in addressing the deficiencies. The following two concerns, however, remained unresolved.

— It was previously reported that computer-produced alert messages representing actual or potential errors in pension records were not followed up or investigated. The 1983-84 audit revealed that Management had addressed this concern by following up and investigating alert messages which it considered to be high risk. While acknowledging that this action by Management represents a control improvement, the Audit Office believes that all alert messages produced by the system represent potential errors or matters that require investigation. Accordingly, the control deficiency will persist until all alert messages are followed up or investigated.

— Another previously reported concern was in connection with weaknesses in the control exercised over the processing of accounting adjustments. Lack of controls to prevent duplicate adjustments being processed and to ensure that adjustments are prepared and processed for all requests, contribute to a high incidence of errors. The large volume of adjustments processed makes this a serious control weakness.

In view of these deficiencies, the Auditor General's recommendation is repeated.

Recommendation: (No. 22) *(1979-80: No. 44)*

It is recommended that the Treasury Department continue to eliminate the remaining accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.

2.4.16 THEFTS OF FUNDS AT PUBLIC COLLEGES

In his 1982-83 annual report (subsection 2.2.19), the Auditor General described the circumstances that led indirectly to thefts by employees at Keyano and Mount Royal Colleges. The Auditor General recommended that adequate time and resources must be directed to ensuring that records and controls, including where possible segregation of incompatible functions, are in place to safeguard college property. He also warned that all government entities should exercise care when eliminating control procedures under the guise of economic restraint lest the vulnerability of public resources to theft or misuse be increased, or the accuracy of financial information to management and the Legislative Assembly be jeopardized.

In a report to the Select Standing Committee on Public Accounts in October 1984, the Provincial Treasurer responded to the Auditor General's recommendations as follows:

> "Advanced Education and the Public Colleges agree on the importance of adequate financial control and procedures. Public Colleges are continually making their best efforts to ensure that adequate controls are in place and that approved procedures are followed. A review of controls has been done at the two Colleges cited and appropriate changes in procedures are being instituted.
>
> Departments, funds and Provincial agencies will be advised to assess the risks associated with reducing the resources allocated to financial administration."

No further thefts were revealed by the annual audits of the Province's ten public colleges for the year ended June 30, 1984. Some of the management letters issued by the Audit Office at the conclusion of those audits reported inadequate segregation of incompatible duties but, in

all cases, management has taken or promised to take remedial action. Accordingly, and in view of the Provincial Treasurer's response, the Auditor General's recommendations are not repeated in this report.

2.4.17 THE WORKERS' COMPENSATION BOARD

The 1983 annual audit of The Workers' Compensation Board revealed a number of weaknesses in the Board's financial controls and accounting systems. In addition, some of the system weaknesses identified during previous audits had not been eliminated, though the Board is taking action to address them.

Following a recent change in the computer service bureau engaged to process the Board's payroll, a number of financial control weaknesses were observed which, if allowed to persist, could result in unauthorized changes to payroll master files and incorrect payments. Among the weaknesses noted were the following:

— Adequate controls were not in place to ensure that all input documentation prepared by the personnel department to update payroll master files was batched and submitted to the computer service bureau for processing.

— Input documents were not authorized by a responsible official whose duties were independent of the payroll processing and distribution process.

— The computer service bureau's payroll master files were not checked regularly to ensure that they contained only valid employee data.

— Batches of documents submitted for processing were not controlled to ensure that they contained only valid and authorized documents.

— Controls were not in place to ensure that all batches of documents were processed and that they were processed on a timely basis.

The following control weaknesses could lead to unauthorized changes to the computer master files used to store pension data on injured workers:

— Input documents used to initiate non-monetary changes to master files were not authorized by a senior pension official.

— Batches of pension input documents were not checked to ensure that only valid and authorized documents were submitted for processing.

— Controls were not in place to prevent certain clerical staff from initiating improper input documents, having them processed and subsequently suppressing them, thereby generating incorrect pension payments with little chance of detection.

The 1983 audit also included a follow-up and review of weaknesses in financial controls and accounting systems originally identified during previous annual audits. Although the Board has eliminated many previously identified system weaknesses, the following remained:

— Not all compensation payment calculations were checked before being submitted for computer processing. During 1983, the Board's quality control section introduced a structured method of spot checking calculations and Management indicated that in 1984 it planned to implement controls whereby cumulative compensation payments would be reconciled with cumulative compensation days on a file-by-file basis. Future computerization of the benefits issuance function planned for 1985 will also address this concern.

The importance of eliminating these system weaknesses is underlined by the results obtained from examining a sample of compensation and medical aid payments during the 1983 audit. The examination revealed a significant error rate within the sample. Although the errors thus identified were not large, the error rate represented a significant increase over the error rates revealed by similar examinations during previous audits.

— Effective controls still did not exist to ensure that all monies received were deposited promptly to the Board's bank accounts.

— Formalized tendering procedures were not established for the acquisition of capital assets.

— The Board's assessment, financial services and purchasing departments lacked procedural manuals governing their operations. It is understood, however, that work has since begun on preparing manuals for the assessment and purchasing departments.

In his 1982-83 annual report (subsection 2.3.9), the Auditor General noted that the Board lacked a formal policy for determining the way, and over what periods, class deficits should be recovered.

From assessments contributed by employers, the Board provides compensation including pensions and medical aid for permanently disabled workers and their dependents. For the purpose of setting assessment rates, employers are grouped into classes depending on the accident risks of the various industries involved. Assessments are set at rates designed to provide for annual class compensation payments, and to contribute to the recovery of any class deficits from previous years.

The 1982 annual audit revealed that assessment rates were being set through an informal guideline that required deficits to be recovered within ten years. No formal Board-approved policy existed as to the period over which deficits were to be recovered or the way in which the deficits would be recovered during that period. It was also noted that, due to the way in which the deficits to be recovered were calculated each year, the period of recovery could extend beyond ten years.

The Auditor General noted that a formal policy was needed governing the recovery of class deficits that could provide assurance that the recommended assessment rates would recover deficits in a manner acceptable to the Board.

The Board agreed with the Auditor General's observations and initiated an overall financial review project, one objective of which is to formulate a policy on the manner and timing for the recovery of realized deficits and the distribution of surpluses. It anticipated that the review should be complete by the end of 1984. Accordingly, pending completion of the review and the establishment of a formal policy, the Auditor General's recommendation is repeated.

Recommendation: (No. 23) *(1982-83: No. 19)*

It is recommended that The Workers' Compensation Board continue with its efforts to establish a formal policy governing the period over which deficits are to be recovered and the way in which class deficits should be recovered during that period.

Recommendation: (No. 24)

It is recommended that The Workers' Compensation Board continue with its efforts to eliminate the weaknesses identified during past audits in its financial control and accounting systems.

2.5 INAPPROPRIATE ACCOUNTING POLICIES AND INADEQUATE DISCLOSURES (Reported pursuant to subsection 19(3) of the Auditor General Act)

2.5.1 ALBERTA HOUSING CORPORATION

In his 1982-83 annual report (subsection 2.4.3), the Auditor General commented on the advisability and appropriateness of policies used by the Alberta Housing Corporation to account for and report land inventories. He recommended that for the reasons outlined in his report, the Corporation:

— discontinue its accounting policy of capitalizing interest on land inventory.

— establish procedures to prevent the recorded cost of land inventory exceeding the market value.

— review regularly the status of its development projects to ensure that the projects' capitalized costs do not exceed the anticipated sale value.

— consider disclosing separately in its financial statements, land inventory designated short-term development land and land inventory designated long-term development land.

— consider using the Province's Land Purchase Fund for acquiring and holding long-term development land.

With effect from April 1, 1983, the Corporation discontinued its policy of capitalizing interest on land inventory.

In August 1984, the operations of the Alberta Housing Corporation were assumed by the newly formed Alberta Mortgage and Housing Corporation. The new corporation has adopted a policy requiring the value of all its land held for resale (ie. short-term development land) to be appraised annually. Provision is then made for any decline in value if the recorded cost of land exceeds the appraised market value. Inventories of long-term development land will continue to be held and reported at recorded cost with no provision for decline in value. Furthermore, the Corporation has undertaken to consider distinguishing in future between short-term development land and long-term development land in its financial statements.

In a report to the Select Standing Committee on Public Accounts in October 1984, the Provincial Treasurer stated that the Government does not consider the Land Purchase Fund an appropriate vehicle for acquiring and holding long-term development land for housing. In March 1984, the Corporation received a $318 million interest free advance from the Province's General Revenue Fund to help finance its land inventory holdings. This should provide some relief from the problems that prompted the Auditor General's recommendation that the Land Purchase Fund be considered as a repository for long-term development land.

Since the Auditor General's recommendations have been or are being implemented or addressed, they are not repeated in this report.

2.5.2 DEPARTMENT OF AGRICULTURE

The Department of Agriculture's 1982-83 annual report which was tabled during 1983-84 contained several errors. The most significant of these was in a schedule of expenditures which overstated the Department's 1982-83 expenditures by $90 million.

Annual reports tabled in the Legislative Assembly by departments, boards and Provincial agencies are important accountability documents. They provide information to Members of the Legislative Assembly and the public on such matters as the scope of the department's programs, and what those programs achieved and cost during the year. As such they com-

plement the detailed financial information published in the Province's public accounts. Accordingly, it is vital that information published in annual reports be accurate and meaningful, and that any financial information be consistent with information contained in the public accounts and other accountability reports.

Recommendation: (No. 25)

It is recommended that in future, the Department of Agriculture take care to ensure that financial information included in its annual reports tabled in the Legislative Assembly is accurate and consistent with information published in the Province's public accounts. The Audit Office is willing to review financial information contained in Departmental annual reports before such reports are printed.

2.5.3 DEPARTMENT OF MANPOWER

The Department of Manpower's expenditures are reported inaccurately in the Province's 1983-84 public accounts. At March 31, 1984, expenditures for the Department's Priority Employment Program (PEP), included in Vote 3 – Special Employment Programmes, were understated by $516,455 while expenditures for the Manpower Training, included in Vote 2 – Manpower Development and Training Assistance, were overstated by $227,875.

The understatement of PEP expenditures at March 31, 1984 followed an accounting policy change during 1983-84. Before then, PEP expenditures were planned, budgeted and reported on a cash basis. PEP expenditures reported each year in the public accounts were the monies actually disbursed during the fiscal year. Late in 1983, however, the Treasury Department required the Department of Manpower to account for PEP expenditures on an accrual basis. This meant that the Department was required to include all expenditures relating to 1983-84, including those disbursed after March 31, 1984.

At March 31, 1984, the Department of Manpower included in accounts payable an accrual of $1.15 million. It was subsequently determined, however, that outstanding 1983-84 PEP expenditures exceeded that amount by $516,455. Accordingly, expenditures in the 1983-84 public accounts are understated by $516,455.

The overstatement of Manpower Training expenditures occurred mainly because they incorrectly included the costs of providing courses that had been cancelled. This could have been avoided by better communication between the Department's financial management and the field officers responsible for organizing the courses.

Recommendation: (No. 26)

It is recommended that the Department of Manpower ensure that year-end accruals and Departmental expenditures are reported accurately in the Public Accounts of the Province.

2.5.4 PENSION LIABILITY

The reporting practice of recording only part of the Province's pension plan obligations as a liability in the Consolidated Statement of Realizable Assets, Liabilities and Net Assets (ie. the Consolidated Balance Sheet) creates potential for misunderstanding the Province's reported financial position.

The Province of Alberta administers the affairs of six pension plans and guarantees the liability of a seventh. The six plans operate pursuant to the Local Authorities Pension Act, the M.L.A Pension Act, the Public Service Management Pension Act, the Public Service Pension Act, the Special Forces Pension Act, and the Universities Academic Pension Act. The seventh plan operates pursuant to the Teachers' Retirement Fund Act.

Reporting Practices

At present, the Consolidated Balance Sheet records as a liability (restricted profits and equity) only the portion of the Province's actuarially valued pension obligations that is covered by assets set aside for that purpose. The very considerable portion of those obligations for which assets have not been set aside is disclosed only in a footnote to the Consolidated Financial Statements.

The Auditor General has commented on the Province's methods of determining and reporting pension liabilities in each of his last five annual reports. In this regard, the Auditor General subscribes to the widely held view that a pension is a form of employee compensation, payment of which is deferred until the employee retires. If this principle is accepted it follows that the employer's costs associated with providing a pension should be borne by the employer while the employer is receiving the benefits of the employee's services. Treating all or part of pension costs as expenditures of the future to be accounted for when the pensions are paid distorts the operating results and financial position. If the full costs of providing future pension benefits for M.L.A's and public employees are not recorded as expenditures each year, program delivery costs are understated in the Province's public accounts. Similarly, if the full costs of providing future pension benefits for local authorities employees, teachers and university staff are not recorded as expenditures each year, the Province is failing to record what in effect is an additional subsidy to local authorities, school boards and universities.

Actuarial Valuations

Every three years, the Treasury Department obtains independent (external) actuarial valuations for the six plans administered by the Province. While preparing the 1984 valuations, the actuaries could not reconcile the 1984 valuations results with the results shown in the previous actuaries' reports on the 1981 valuations. After extensive investigation and consultation with the actuaries who certified the 1981 valuations, it was discovered that some of the data on which the 1981 valuations results were based did not conform in several respects with the actuarial assumptions specified by the actuaries and described in the reports. In particular, except for the M.L.A.'s plan, all of the plans had been valued using identical termination of employment rates, instead of rates that vary from plan to plan to reflect the experience of each plan. Moreover, the termination of employment rates that were used were only 10% of the rates specified for the Public Service Management plan, a plan whose rates (even at 100%) are much lower than for the Public Service and Local Authorities plans. Consequently, the reported results of the 1981 valuations for these plans, where relatively high termination rates should have been used, were significantly overstated.

The actuaries who performed the 1981 and 1984 valuations concur that the pension liabilities reported for March 31, 1981 were overstated in aggregate in a range of 15% to 25%. The overstatement was therefore within a range of $500 million to $900 million.

As a result of the discontinuity between the 1981 and 1984 valuations, the Auditor General retained the services of an independent consulting actuary to assess the situation. Following an investigation, and without attempting to assign responsibility for what happened, this actuary reached the following conclusions:

(i) "Errors" did occur in calculating the accrued pension liabilities (actuarial present value of pension obligations) and normal costs (that portion of the actuarial present value of pension obligations relating to future pension benefits allocated to a fiscal period) as part of the 1981 valuations of five of the six pension plans. The following figures illustrate the effect that the 1981 errors would have had if the liabilities were calculated on 1984 data with "erroneous" 1981 assumptions; "corrected" 1981 assumptions; and 1984 assumptions:

Accrued pension liability at March 31, 1984 calculated using 1984 data and "erroneous" 1981 assumptions	$6,054.2 million

Accrued pension liability at March 31, 1984 calculated using 1984 data and "corrected" 1981 assumptions	$5,006.5 million
Accrued pension liability at March 31, 1984 calculated using 1984 data and 1984 assumptions	$4,852.6 million

Because of the continuing increase in the accrued pension liabilities, the difference between the "erroneous" and "corrected" amounts if calculated as at March 31, 1981 would be smaller.

(ii) The error or errors that occurred when preparing the 1981 valuations should not diminish or impair confidence in the 1984 valuations. The 1984 valuation procedures corrected several aspects of the 1981 valuation procedures that contributed to the errors. Secondly, several actuaries were involved, which decreased the likelihood of undetected error. Thirdly, the actuaries who performed the 1984 valuations benefited from the existence of the 1981 valuations which were used as a starting point or bench-mark against which to test and reconcile the 1984 results.

(iii) With relatively minor exceptions, the actuarial cost method and the economic and demographic assumptions used in the March 31, 1984 actuarial valuations were adequate and appropriate, and the results shown in the reports on those valuations appeared reasonable.

Teachers' Retirement Fund Pension Plan

In addition to the liabilities under the aforementioned six pension plans, the Province guarantees the benefits payable under the partially funded pension plan operating pursuant to the Teachers' Retirement Fund Act. The Board of Administrators of the Fund obtained a quinquennial actuarial valuation for this plan as at August 31, 1983.

In his 1982-83 and previous annual reports, the Auditor General recommended that the Treasury Department and the Board of Administrators of the Teachers' Retirement Fund agree on common economic assumptions and actuarial cost methods to be used when valuing the pension plans administered by the Province of Alberta and the Teachers' Retirement Fund. This recommendation recognized that a more useful assessment of the Province's total pension liability would be obtained if common economic assumptions and methods were used when valuing all plans.

The actuary retained by the Auditor General agreed with the above observations and suggested that where valuations are obtained primarily for information purposes (ie. for financial statement disclosure and determination of annual pension costs), the actuarial cost method and the economic assumptions used should be uniform across all plans.

The valuation for the Teachers' Retirement Fund plan was also reviewed by the actuary retained by the Auditor General. He reported that the actuarial basis for the valuation of the Teachers' Retirement Fund plan was now much closer to the basis used for the six Provincial plans than was formerly the case. The valuation now provided for anticipated cost of living adjustments after retirement (which it did not do previously), and although a different actuarial cost method was used, the accrued liability was calculated in the same way as for the six Provincial plans, and the long-term economic assumptions were now quite similar to those used in the 1984 valuations of the six plans.

Although the actuary commented on differences in the length of the period for which short-term economic assumptions were used and the appropriateness of the actuarial cost method used to calculate normal cost, no serious concerns were raised with respect to the adequacy or appropriateness of the assumptions and actuarial cost method used for the purpose of calculating the accrued pension liabilities.

Prior Years' Projections

In accordance with normal practice and acting in good faith, the Government, the Auditor General and all parties concerned relied on the certified but erroneous 1981 actuarial valuations. The Auditor General included in his previous annual reports, estimates of the liability arising under the plans as at March 31, 1982 and 1983. These estimates were based on calculations using the accrued liabilities and normal cost rates reported in the March 31, 1981 actuarial valuations for the six plans and the August 31, 1978 valuation for the seventh plan.

As would be expected the projections for the six plans suffered from inaccuracies similar to those in the 1981 valuations. In addition, the projections assumed that many of the actuarial assumptions came true from the effective date of the 1981 valuation to the date of the projection, and that there had been no significant alteration in the profiles of the employee and pensioner groups. The farther away the projection date gets from the date of the valuation on which it is based, the more likely it is that significant variations in actual experience or in the profiles will have taken place. The only reasonable substitutes for projections such as those provided by the Auditor General are annual actuarial valuations. These can be relatively straightforward affairs if the actuarial assumptions and methods are continued without change in the interim years and subjected to review and revision in the light of experience investigations only, say, every third year.

The Auditor General included the 1982 and 1983 estimates in his annual reports for two reasons. Firstly, to illustrate the extent of the pension liability not recorded as such on the Province's balance sheet, and secondly, to show how the figure was increasing from year to year. Despite the aforementioned overestimates, these concerns are still valid. The only difference is that the dollar amounts involved after the correction of the errors are not as significant as originally suggested.

The following summary shows that, based on the 1984 valuations, the liability under the six plans against which assets have not been set aside amounted to $2.72 billion. This represents a significant increase over the corrected corresponding figure at March 1981. The August 1983 valuation for the seventh plan shows that the unfunded liability amounted to $1.33 billion, and the actuaries who prepared this valuation estimated that this liability would increase to approximately $1.38 billion at March 31, 1984. This represents an increase of $638 million over the unfunded liability disclosed by the August 31, 1978 valuation. The summary thus shows that the total unfunded liability for all plans at March 31, 1984 amounted to $4.10 billion.

	Valuations as at March 31, 1984 (Billions of Dollars)
Local Authorities Pension Act	$2.07
M.L.A. Pension Act	0.02
Public Service Management Pension Act	0.72
Public Service Pension Act	1.25
Special Forces Pension Act	0.26
Universities Academic Pension Act	0.55
	4.87
Deduct: Pension Fund assets	2.15
	2.72
Teachers' Retirement Fund Act (unfunded portion)	1.38
Unrecorded liability	$4.10

Funding Considerations

The Auditor General's main concern respecting pension liabilities has always been that they be reported in the Province's financial statements in the most appropriate manner. Whether or not pension obligations should be funded, and to what extent, are matters of public policy

and therefore beyond the scope of this report. Nevertheless, when commenting in previous annual reports on the continuing increase in the Province's unfunded pension liability, the Auditor General noted that the increase would likely continue unless significant additional funds were set aside to meet the liability, or pension contributions were increased, or pension benefits were reduced.

Since the establishment of the Pension Fund in 1981, employer contributions have been paid, together with the employee contributions less benefit payments, into the Pension Fund. These contributions, together with the $1.1 billion contributed to the Pension Fund at its inception and the investment earnings on the assets of the Fund since that date, have helped to keep the unfunded portion of the accrued liability from growing as rapidly as was formerly the case.

However, the rates of employee and employer contributions have been less than the estimated cost of currently accruing benefits as reported both in the 1981 and 1984 valuations, although the error in the 1981 valuation caused a much greater overstatement of the normal costs in the 1981 valuations for the Public Service and Local Authorities Pension plans than it did for other plans.

Legislation passed in 1984 provided for a 1.25% increase in both employee and employer contributions to the Local Authorities and Public Service pension plans. The increases are to be phased in over a five year period with the first increase of 0.25% taking effect in January 1985. As a result, the average combined contribution rates for these two plans at January 1, 1989 are expected to be slightly above their estimated normal cost based on the 1984 valuations. Actuarial valuations prior to 1989 will serve to clarify this in due course.

The combined employee and employer contributions for the remaining plans under the present legislation is lower than their estimated normal cost.

In reviewing this matter, the actuary retained by the Auditor General concluded that notwithstanding the error made in preparing the 1981 valuations for the Public Service and Local Authorities Plans, the scheduled increases in the contribution rates are still required to bring them to somewhere close to the normal cost.

In addition, if the Government's policy is to adjust the contribution rates over a period of time to catch up with the normal cost rates, then significant contribution rate increases are still required for the other four plans.

Recording the Province's Full Pension Liability

In his last five annual reports, the Auditor General recommended that the unrecorded liability arising from the Province's various pension plans be reflected as a liability in the financial statements of the Province. He also recommended that consideration be given to available ways and means of restricting the growth of the unfunded portion of the Province's pension liability.

If the full unfunded pension liability amounting to approximately $4.1 billion at March 31, 1984 was recorded as a liability in the consolidated financial statements of the Province, the consolidated surplus at March 31, 1984 would be reduced from $11.5 billion to $7.4 billion. The magnitude of these figures illustrates the importance of recording the Province's pension obligations as a liability. The figures also show that a full and timely accounting for pension obligations will impact not only the Province's reported net worth, but also its annual operating results.

There are a number of different ways in which the Auditor General's recommendations could be implemented. For example, the following methods could be used or combined to achieve full reporting of the pension liability, and/or to control the increase in the unfunded portion of that liability:

(i) The simplest method of reporting the Province's full pension liability would be to charge as an expenditure the amount of the pension liability that is unfunded, thereby reducing the accumulated surplus shown on the balance sheets of the General Revenue Fund and the Province's consolidated financial statements. If this method was adopted, increases or decreases each year in the unfunded liability would be recorded in a similar manner.

(ii) It may, however, be deemed inappropriate or undesirable to record the full amount of the unfunded pension liability in one year, or to record the full amount of annual or triannual changes in a similar manner. If so, a policy could be devised whereby the initial amount and subsequent changes are amortized to expenditure over set time periods. This method is being used in several Canadian jurisdictions and has the advantage of smoothing out large fluctuations in valuations.

(iii) Another method of achieving the aforementioned pension reporting objectives, whether on an amortized basis or otherwise, could be by recording the Province's full pension liability as a liability of the Province's Pension Fund. This Fund holds the assets set aside to meet future pension obligations but, at present, records as fund equity only the portion of the Province's pension liability equal to the value of the net assets it holds.

Although this method may require changes to the Pension Fund legislation, it would allow the Fund's assets to be prorated to the various plans, thereby enabling the assets and liabilities to be matched on a plan-by-plan basis. It would also allow the investments of the Fund to continue to be managed as a single pool. Finally, it would enable the financial statements of the Pension Fund to show whether net contributions and income are increasing or decreasing the unfunded liability on a plan-by-plan basis.

(iv) None of the above methods, by themselves, would effectively curtail the growth of the Province's unfunded pension liability. If the Government decided that this growth should be curtailed, it could do so by paying into the Pension Fund from the General Revenue Fund each year amounts equal to interest calculated on the unfunded amount.

(v) In the public sector, pension funding concerns are usually considered to be less important than in the private sector, due to the remoteness of the possibility that the employer will go out of business or otherwise renege on benefit promises. Furthermore, governments find it impractical to tie up large amounts of money in pension funds while at the same time having to borrow money from other sources to meet day-to-day expenditures. Faced with this problem, some jurisdictions have opted to partially or fully "fund" their pension guarantee obligations with their own interest-bearing notes, bonds or debentures, thereby keeping the money available for their own use.

This method could be modified by providing for sufficient "arms length" assets to be retained in the pension fund to meet short-term pension obligations. Used in conjunction with the Province's Pension Fund as indicated in method (iii) above, "notional" funding of this nature could be an attractive alternative if the Province decides to fully "fund" its pension obligations.

(vi) Finally, another way of controlling increasing pension liabilities is by introducing a defined contribution plan sometimes described as a money purchase pension plan. Under such a plan, retirement benefits are limited to those that can be purchased with the accumulated combined employer and employee pension contributions and income earned thereon. As such, defined contribution plans do not have unfunded liabilities.

Conclusions

The Auditor General remains convinced that the Province's total liability for pension obligations should be recorded as a liability on the balance sheet of the Province, so as to present the financial position of the Province more meaningfully. Furthermore, he believes that if the total pension liability is so recorded, a method should be developed whereby the cost of accruing pension benefits will be recorded on an on-going basis. If the Government decides to restrict any increases in the unfunded pension liability, interest should be calculated on such unfunded liability and subsequently paid into the Pension Fund. Consideration should also be given to prorating the Pension Fund assets to the six plans.

It is believed that charging full pension costs to the entities and programs that incur them and recognizing the full extent of the unfunded liability could indirectly result in savings by focusing attention on the true costs involved.

Recommendation: (No. 27) *(1978-79: No. 34)*

It is recommended that consideration again be given to reflecting the unrecorded liability arising from the various pension plans administered and guaranteed by the Province as a liability in the financial statements of the Province. The accounting method used to implement this should incorporate charging all pension costs to the entities and programs that benefit therefrom. Furthermore, if the Government decides to restrict any increases in the Province's unfunded pension liability, consideration should be given to paying into the Pension Fund each year amounts equal to interest calculated on the unfunded amount. Providing that the combined employer and employee contributions approximate the normal pension costs incurred, the payment of such interest will prevent the further growth of the unfunded liability.

Recommendation: (No. 28)

It is recommended that consideration be given to having interim valuations of the Province's pension obligations prepared by independent actuaries at fiscal year ends when full actuarial valuations are not prepared.

Recommendation: (No. 29) *(1978-79: No. 34)*

It is recommended that the Treasury Department and the Board of Administrators of the Teachers' Retirement Fund employ common economic assumptions and actuarial cost methods when valuing the pension plans administered by the Province of Alberta and the Teachers' Retirement Fund. Furthermore, similar action to that taken in response to recommendations No. 27 and 28 above, should also be considered to address the unfunded portions of the Teachers' Retirement Fund Pension Plan.

2.5.5 TIMELINESS OF FINANCIAL REPORTING

The Province of Alberta's annual public accounts and the Auditor General's annual reports would be more meaningful and useful to the Legislative Assembly, the Select Standing Committee on Public Accounts and the public if they were published earlier than is currently the practice.

It is generally acknowledged that for reports to be useful, they must be timely. If the reported information is out of date, its potential value diminishes accordingly.

In recent years, the public accounts have been published ten or eleven months after the Province's March 31 year-end. Since in many respects the Auditor General's annual reports are commentaries of the public accounts, it is unreasonable for them to be published before the public accounts are published. It would also seem inappropriate for the Auditor General's annual reports to be published before they are tabled in the Legislative Assembly. This effectively precludes the Auditor General publishing his annual reports before the spring sitting of the Assembly; ie. approximately one full year after the fiscal year to which the reports relate.

The Auditor General believes that for the Province's public accounts and the Auditor General's annual reports to achieve their full potential for usefulness and relevancy, they must be tabled during the fall sitting of the Legislative Assembly.

While acknowledging that producing these reports significantly earlier will require considerable co-ordination and some fundamental changes, the Auditor General recommended in his 1981-82 and 1982-83 (subsection 2.4.7) annual reports that efforts be made to achieve more timely financial reporting. In response to these recommendations the Provincial Treasurer stated:

> "The Government agrees that timeliness is an important objective of financial reporting. The Office of the Controller has issued a draft of a financial reporting policy directive which

emphasizes that objective. It calls for earlier finalization of year end accounts by departments and earlier preparation of financial statements of funds and agencies. It must be recognized that the achievement of earlier preparation of the Public Accounts requires action on the part of all departments, funds and agencies, and as well the Office of the Auditor General if Public Accounts are to be presented at an earlier date complete with the Auditor General's reports on the financial statements."

The Auditor General is encouraged by the Provincial Treasurer's response and views the issuance of a financial reporting policy directive as an important first step in the direction of more timely financial reporting. Further action will be necessary, however, if the Province's public accounts are to be published significantly earlier.

Producing public accounts within the suggested time frame will require careful co-ordination of effort and, in some cases, changes to year-end accounting procedures. For example, some accounting systems currently in use are unable to generate financial reports and statements early enough to allow time to finalize audits, consolidate statements and print public accounts before the end of the fall sitting of the Legislative Assembly. Co-ordination and co-operation are essential because just one late department, fund or Provincial agency will be enough to delay the printing of public accounts.

It should not be inferred that the accounting systems of all funds and Provincial agencies will require radical and expensive changes to achieve the suggested financial reporting deadlines. Some already produce their annual financial statements very promptly while many others could do so with just a little more effort.

A number of decisions will need to be made before the Province embarks on a strategy designed to bring about more timely financial reporting. These decisions cannot be made in isolation. Accordingly, it is suggested that a task force be established with a mandate to:

— determine when they would be most useful,

— identify the difficulties that must be overcome to publish public accounts by the time that users require them,

— explore ways and means of overcoming those difficulties,

— identify the benefits that more timely financial reporting can be expected to provide,

— identify and quantify the costs that will be involved, and

— recommend financial reporting objectives for the future and a time-scale for achieving those objectives.

The task force could be chaired by the Office of the Controller which, once the Province's financial reporting objectives are approved, could monitor the achievement of those objectives. Because co-operation and co-ordination will be vital if the public accounts are to be published much earlier, the task force should include representatives from the main parties affected.

It is acknowledged that the Audit Office will also need to change its methods to facilitate earlier publication of the Province's public accounts. Whereas at present some annual audits are completed in October and November, they would need to be finalized much earlier if public accounts and the Auditor General's annual report were to be tabled during the fall sitting of the Legislative Assembly. This would mean that most of the auditing would need to be completed by March 31 each year, leaving the following few months for finalizing audits and reporting to management.

The Auditor General acknowledges that the current environment of fiscal restraint is hardly conducive to spending scarce resources on new accounting and reporting systems. For this reason, it is important that any new systems established are designed to provide the decision-making information needed for such an environment. Accordingly, before proceeding, the task force should weigh the anticipated benefits to be derived from earlier financial reporting against the costs involved in achieving it.

Pending further dialogue on this topic with the Treasury Department, the Auditor General's recommendation is repeated.

Recommendation: (No. 30) *(1981-82: No. 47)*

It is recommended that the Treasury Department facilitate action involving all concerned to determine the feasibility, including ways and means, of more timely financial reporting to the Legislative Assembly. Such action should include seeking and addressing the requirements of the Select Standing Committee on Public Accounts for more timely reports on the Province's financial affairs.

2.6 RECOMMENDATIONS IN PREVIOUS ANNUAL REPORTS THAT WERE REJECTED OR ARE NOT COMPLETELY RESOLVED.

2.6.1 The Auditor General has adopted the reporting practice of carrying forward, from one annual report to the next, recommendations that remain unimplemented. Where, however, the Government has formally rejected a recommendation, or where an extended period is needed to resolve the underlying problems, the recommendations are not carried forward in the normal way but are noted in this subsection of the report. Should events occur or circumstances change to warrant it, the relevant recommendations may be reactivated or the matter may no longer be reported.

2.6.2 Deemed Assets

In his 1978-79 annual report (subsection 4.4.1), the Auditor General suggested that the accounting practice of showing "deemed assets" on the balance sheet of the Alberta Heritage Savings Trust Fund is potentially misleading. "Deemed assets" represent the accumulated expenditures of the Fund's Capital Projects Division; they are not assets of the Fund nor, in many cases, are they assets of the Province. Accordingly, and despite full disclosure in the Fund's annual financial statements, showing these expenditures as assets on the balance sheet creates potential for misunderstanding the true value of the assets of the Fund. Although the financial statements are designed to mitigate against readers misunderstanding the value of the Fund's assets, it has been noted that the Fund's total value is often quoted using a figure that includes "deemed assets".

The Government rejected the Auditor General's recommendation on the grounds that section 6(8)(a) of the Alberta Heritage Savings Trust Fund Act requires this accounting practice and, as such, represents public policy as established by statute.

It is important to note that the Auditor General's concern is that the current financial statements create potential for misunderstanding; not that they are misstated. The financial statements are prepared in accordance with the governing legislation and disclose fully the accounting principles and methods employed.

2.6.3 Program Effectiveness

In his 1978-79, 1979-80, 1980-81 and 1981-82 annual reports (1981-82: subsection 2.8.1), the Auditor General recommended that departments and agencies improve the accountability information provided to the Legislative Assembly respecting program objectives and accomplishments. He suggested that program objectives should be published with specific and quantitative data being provided wherever practicable as measures of the intended use of the funds requested. This information would be available to Members of the Legislative Assembly when they consider the annual Estimates of Expenditure. After the end of each fiscal year, the departments and agencies would prepare reports summarizing the accomplishments resulting from the expenditure of funds for each program. The reports would also compare the accomplishments with the objectives and quantitative data provided in the estimates. If the Ministers responsible for the programs laid these reports before the Legislative Assembly each year, accountability would be improved and the Assembly's control over the "public purse" would be enhanced.

The Government rejected the Auditor General's recommendation on the grounds that it considers that the information presently published in the Estimates of Expenditure and in the

annual reports of departments and agencies is adequate. It undertook, however, to give careful consideration to situations where management control systems audits performed by the Audit Office reveal instances where the achievements of programs can be measured more accurately.

It is interesting to note that in recent years, program evaluation has gained in popularity and acceptance in many jurisdictions. Several Canadian provinces, for example, have increased the scope and quantity of their evaluation activity. Most of these view program evaluation as an important management information and decision-making source and the Government of Canada has gone further by including selected evaluation results in the accountability information it tables in Parliament. In the United States, the legislation governing many major federal programs calls for the results of the programs to be evaluated and published periodically. In the United Kingdom, a recent paper on financial management in government departments presented to Parliament by the Prime Minister stated:

> "In particular, it is intended to develop the White Paper to contain clearer statements of the policy objectives to which expenditure is directed; and these will in turn be related to progress and performance indicators wherever possible. The intention is that there should be the closest possible relationship between both the public expenditure White Paper and the Estimates and the information systems which departments are developing for the management both of programmes and of their own activities and costs.
>
> The general aim is to disclose as much information as possible from departments' internal management information systems. There are however clearly some areas where publication is not appropriate, for example because the material has security implications, or because it would disclose management intentions where this would be self-defeating, such as in action against fraud or tax-evasion. Each Minister in charge of a department must make his own decisions about these matters."

It is believed that the everpresent need to allocate proposed budgetary expenditures more effectively, and the advances taking place in some jurisdictions in program evaluation methodology, will inevitably combine to promote the establishment by the Province of systems to measure program effectiveness where such systems can be integrated with line management's functions, where they are cost effective and where they do not expand the Public Service.

2.6.4 Fixed Assets

In his 1978-79, 1980-81 and 1981-82 annual reports (1981-82: subsection 2.3.7), the Auditor General observed that the control exercised by the Government of Alberta over much of the Provincially owned furniture and equipment was inadequate and ineffective. He recommended that the systems used by many departments, funds and agencies to control and safeguard fixed assets be improved to comply with the requirements of section 9.5 of the Treasury Department's Manual of Financial Administration.

The Government agrees with the Auditor General's recommendation and through the Office of the Controller, is encouraging departments and agencies to improve their fixed asset systems. The Audit Office has noticed a gradual improvement in these systems and, as long as this trend continues, the Auditor General will not repeat this recommendation in his annual reports. However, as a normal part of annual audits, the Auditor General will continue to report observed inadequacies in fixed asset control systems to management of the applicable departments, funds and Provincial agencies.

2.6.5 Comparative Information on the Heritage Fund's Investment Performance

In February 1982, the Auditor General issued a special report on certain matters related to the Alberta Heritage Savings Trust Fund. In that report, and in his 1980-81 and 1981-82 annual

reports (1981-82: subsection 2.2), the Auditor General suggested that significant benefits may be derived from comparing the performance of the Heritage Fund's Section 10 investments with the performance of similarly constituted investment portfolios in the private sector. He recommended, therefore, that the Treasury Department retain the services of an independent investment analyst capable of providing regular comparative information, and that such information could be made available to the Select Standing Committee on the Alberta Heritage Savings Trust Fund.

The Government rejected the Auditor General's recommendation for several reasons. Among these were that it does not consider that the publication of comparative performance information would be meaningful because of the special nature of the Heritage Fund, and because the amount of the Fund held in Section 10 investments is expected to decrease. In addition, it considers the non-comparative yield-to-maturity and rate-of-return information currently provided in the Heritage Fund's annual report to be sufficient.

2.6.6 Income Tax Revenues

In his 1979-80, 1980-81 and 1981-82 annual reports (1981-82: subsection 2.3.13), the Auditor General commented on the difficulties involved in ensuring that, each year, the Province receives all the income tax revenues to which it is entitled.

In recent years, neither the Government of Canada nor the Province of Alberta has produced accurate estimates of the difference between Alberta income taxes assessed and the taxes that could be assessed if taxpayers complied fully with the law. Accordingly, neither the Province of Alberta nor the Auditor General are able to determine how much income tax receivable is not assessed, or to evaluate the effectiveness of the compliance and enforcement procedures used by the Government of Canada, as Alberta's agent, when collecting Alberta income taxes.

For these reasons, the Auditor General recommended that the Provincial Treasurer:

— estimate annually, either independently or in conjunction with the Department of National Revenue – Taxation, the income taxes assessable under the Alberta Income Tax Act.

— estimate annually how much income tax it is reasonable to expect will not be assessed assuming that the Department of National Revenue – Taxation employs adequate compliance and enforcement procedures.

— require each year, prompt remittances to the Province of the difference between these two estimates, or explanations for any significant variances.

The Provincial Treasurer responded to this recommendation as follows:

> "One of the fundamental principles underlying Canada's income tax system is self-assessment – each individual is responsible to accurately report his taxable income. To encourage compliance with the provisions of the Income Tax Act, Revenue Canada each year audits a relatively small number of tax returns. This practice strikes a reasonable balance between unquestioning acceptance of returns filed by taxpayers and a detailed audit of each return which would be prohibitively costly and an undue burden on individual Canadians.
>
> The Auditor General of Canada reviews the sampling selection system used by Revenue Canada. As long as the federal Auditor General is satisfied that the procedures being used are adequate, we see no basis for questioning Revenue Canada's administrative practices.
>
> Although there are no doubt cases where individuals are not paying tax on all or part of their incomes, the Alberta government believes that the administrative procedures used by Revenue Canada are, on balance, fair and appropriate. Under the terms of the Alberta-Canada Tax Collection Agreement, Alberta is entitled to receive only the tax that is actually assessed. The Government, therefore, does not intend to ask for payment from the federal government of taxes which Revenue Canada does not assess."

In view of this response, the recommendation is not carried forward again in this report. During future audits of Provincial revenues, however, the Audit Office will review the basis for the conclusions contained in the Provincial Treasurer's response.

The Provincial Treasurer's response indicates that Alberta does not intend to question the administrative practices of Revenue Canada providing that the Auditor General of Canada is satisfied that the procedures being used are adequate. However, in his 1980 annual report, the Auditor General of Canada recommended that the Department of National Revenue – Taxation improve its estimate of the tax gap associated with individuals who do not file income tax returns. It would appear, therefore, that reason may exist for questioning Revenue Canada's administrative procedures for determining income taxes collectable under the Alberta Income Tax Act. The Audit Office will continue to monitor any reports or statements issued by the Auditor General of Canada respecting Revenue Canada's administrative procedures that impact the assessment and collection of Alberta income taxes.

2.6.7 Access to Taxation Records

In his 1978-79, 1979-80, 1980-81 annual reports (1980-81: subsection 2.6.1), the Auditor General commented on the circumstances that restrict his right of access to certain taxation records. The terms of the tax collection agreement between the Governments of Alberta and Canada effectively prevent the Auditor General of Alberta performing the audit work necessary to report on the collection of Provincial income taxes as required by subsection 19(2)(a)(i) of the Auditor General Act. In recent years, the Auditor General has obtained a measure of assurance, from audit work performed by the Auditor General of Canada, that the Province receives each year, the income taxes to which it is entitled. However, if at some future time the Auditor General of Alberta considered that further assurance is required to enable him to discharge his responsibilities under the Auditor General Act, the terms of the tax collection agreement could prevent him from obtaining such assurance.

In response to a recommendation that the restrictions to the Auditor General's right of access to certain taxation records be eliminated, the Provincial Treasurer has undertaken to raise the matter when federal-provincial negotiations of the tax collection agreement are next held.

2.6.8 Centrally Incurred Costs

In his 1978-79, 1979-80, 1980-81, 1981-82 and 1982-83 annual reports (1982-83: subsection 2.4.1), the Auditor General commented on the inappropriate and inconsistent methods used by the Province to account for certain costs associated with the occupation of premises and other centrally provided services. As a result of these methods, inconsistent and potentially misleading reporting occurs because some costs are charged to the programs that benefit from the services while others are charged to the programs that procure or provide the services. These inconsistencies distort the reporting of, and thereby impair the value of, the program budgeting and reporting concept.

To address this problem, the Auditor General recommended that consideration be given to employing budgeting and accounting policies that allocate the costs of fixed assets and major centrally provided services to the programs, funds and agencies that derive benefit from their use. Possibly this objective could be achieved using a revolving fund or similar vehicle.

The Government established a task force to assess the potential costs and likely benefits of implementing the Auditor General's recommendation. In 1984, however, because of the environment of fiscal restraint, the estimated cost and the difficulties experienced in quantifying the value of the benefits, it was decided to defer any action on the task force's findings and recommendations.

2.6.9 Legislative Control Over Major Capital Projects

In his 1979-80, 1980-81, 1981-82 and 1982-83 annual reports (1982-83: subsection 2.4.4), the Auditor General suggested that Members of the Legislative Assembly currently receive insufficient information to enable them to debate and approve the Province's major capital construction projects in an informed manner.

The problem arises because although the lives of these projects normally extend over several years, the Legislative Assembly approves their funding on a year by year basis. The basic information on which the Legislative Assembly debates and approves these annual expenditures is provided by the annual Estimates of Expenditure which contain little more than anticipated current year's expenditures and actual and estimated expenditures for the two previous years, often not on a project by project basis. Only infrequently are estimates of total project costs published formally with such important information as anticipated length and annual costs and the allowance made for monetary inflation.

To provide Members of the Legislative Assembly with the information necessary to debate and approve annual funding for major capital construction projects, the Auditor General recommended that annual appropriation bills be supported by more comprehensive financial information. As a minimum, this information should include details of the original estimated costs and scope of each project, cost and scope revisions, costs incurred to the end of the previous fiscal year, current year cost forecast, amount to be appropriated for costs during the next fiscal year, estimated future costs to completion, estimated impact of monetary inflation, current and future costs compared to original cost estimates, and the total estimated eventual cost of the project.

The Government rejected the Auditor General's recommendation on the grounds that it is not convinced that providing more extensive information would increase legislative control. It believes that any additional information needed can be elicited from the responsible ministers by means of questions during committee of supply review.

2.6.10 Non-renewable Resources Incentive Costs Offset Against Revenue

In his 1979-80, 1980-81, 1981-82 and 1982-83 annual reports (1982-83: subsection 2.4.6), the Auditor General criticised the practice of budgeting and reporting certain expenditures as deductions from revenue, rather than as separate program expenditures.

Governments in Canada usually budget and report revenues and expenditures separately. This enables total revenues and total expenditures to be ascertained more easily and compared one year with the next. It also means that expenditures can be controlled and accounted for on a program-by-program basis. In addition, because expenditures undergo a more frequent and rigorous budget review than revenues, expenditures budgeted as deductions from revenue are subject to less administrative and legislative control.

In most cases, Alberta adheres to the principle that revenues and expenditures should be budgeted and reported separately. A major exception to this, however, is that expenditures incurred under the exploratory drilling incentive and geophysical incentive programs are budgeted and reported as deductions from non-renewable resource revenue.

In his 1979-80, 1980-81, 1981-82 and 1982-83 annual reports, the Auditor General recommended that expenditures under these programs, whether in the form of grants or credits, be budgeted and reported separately in the annual Estimates and Public Accounts of the Province. The Government rejected the Auditor General's recommendations and in 1984 the Legislative Assembly enacted the Mines and Minerals Amendment Act, 1984 which requires the Provincial Treasurer to set-off costs incurred under the two aforementioned programs against non-renewable resource revenue.

3 PUBLIC ACCOUNTS (Reported pursuant to subsection 19(3) of the Auditor General Act)

3.1 INTRODUCTION

3.1.1 This section of the report contains supplementary information on the public accounts of the Province and, in particular, on the Consolidated Financial Statements.

3.1.2 The public accounts of the Province for the year ended March 31, 1984 are published in two volumes. Volume I contains the following financial statements, together with the reports of the Auditor General thereon:

1) Consolidated financial statements of the Province of Alberta.

2) Financial statements of the General Revenue Fund.

3) Financial statements of revolving funds, regulated funds, Provincial agencies and trust funds administered by the Government.

Volume II contains details of expenditures and revenues by department and other statements and reports included in the public accounts to comply with the Financial Administration Act and other statutes. In addition, a book containing details of expenditure by payee is published as supplementary information.

3.1.3 The Auditor's Report in subsection 1.3.3 of this report covers the consolidated financial statements of the Province. A similar Auditor's Report (see Volume I) covers the financial statements of the General Revenue Fund and the more detailed information of departmental expenditures and revenues contained in the first twenty five sections of Volume II.

The book containing details of expenditure by payee is not covered by the Auditor's Reports mentioned in the previous paragraph since it is not an integral part of public accounts. However, the system that processes the information contained therein is reviewed periodically by the Audit Office.

3.2 CONSOLIDATED FINANCIAL STATEMENTS OF THE PROVINCE OF ALBERTA

3.2.1 The consolidated financial statements of the Province are an aggregation of the financial statements of most of the entities administered by the Province of Alberta. In effect, the consolidation combines the operating results and financial affairs of the General Revenue Fund, the Alberta Heritage Savings Trust Fund and most of the entities whose financial statements are published in Volume I of the public accounts.

The consolidation does not include Provincially administered universities, colleges, technical institutes, hospitals and related funds listed in subsection 4.1.3 of this report. They are excluded because subsection 2(5) of the Financial Administration Act specifically exempts the Act's application to these entities.

3.2.2 As stated earlier in this report, the consolidated financial statements represent the best available basis for reviewing the overall financial position of the Province and its annual operating results. The following figures, taken from the consolidated statements, illustrate major movements and trends.

	1981-82	1982-83	1983-84
		(Millions of Dollars)	
Revenue	$10,548	$10,550	$11,572
Expenditure	$ 8,415	$11,344	$11,332
Annual surplus (deficit)	$ 2,133	$ (794)	$ 240
Portfolio and long-term investments	$ 3,759	$ 4,350	$ 5,343
Equity in commercial enterprises	$ 1,785	$ 1,871	$ 1,596
Loans and advances receivable	$ 5,992	$ 7,800	$ 8,345
Current assets	$ 5,836	$ 4,977	$ 4,529
Current liabilities	$ 1,645	$ 2,411	$ 2,312
Unmatured debt payable	$ 2,080	$ 3,326	$ 3,553
Pension Fund	$ 1,400	$ 1,766	$ 2,154
Accumulated surplus at end of year	$12,064	$11,270	$11,510

Surpluses and Deficits

3.2.3 When referring to the Province's surpluses and deficits, care must be taken to avoid misunderstandings by stating clearly which surplus or deficit is meant. For example, it must be stated clearly whether the surplus or deficit referred to is the annual surplus or deficit (ie. the difference between revenue and expenditure during a specified fiscal year) or an accumulated surplus or deficit (ie. the difference between reported assets and liabilities at a specified date).

Care must be taken to indicate whether the surplus or deficit referred to is that of the Province's General Revenue Fund or of the Province's Consolidated Financial Statements. In this regard, although a surplus or deficit of the General Revenue Fund may be called a budgetary surplus or deficit, they should not be referred to as the Province's surplus or deficit. The Province's surplus or deficit are figures reported in the consolidated financial statements of the Province.

Referring to the figures in paragraph 3.2.2 above it follows, therefore, that the Province's annual surplus for the 1983-84 fiscal year was $240 million and that the Province's accumulated surplus at March 31, 1984 was $11.5 billion.

3.2.4 Before accepting $11.5 billion as the net worth of the Province's assets at March 31, 1984, however, it is important to understand exactly what the figure represents. In this regard, the accounting policies and reporting practices used in arriving at the figure are outlined in Note 1 to the consolidated financial statements. Some of these policies, however, are deemed worthy of mention herein because of the significant impact they have on the reported figures.

3.2.5 For example, as explained in paragraph 3.2.1 above, the consolidation does not include the financial statements of the Provincially owned universities, colleges, technical institutes, hospitals and their related funds. Including the recorded net assets of these entities in the consolidation would increase the Province's accumulated surplus at March 31, 1984 by approximately $33.5 million.

3.2.6 In addition, most of the Province's fixed assets are excluded from the consolidation. This means that the accumulated surplus at March 31, 1984 does not include the value of most Provincially owned land, buildings, equipment, fixtures and furniture. Many of these assets are readily marketable and would significantly increase the Province's accumulated surplus at March 31, 1984 if their value was included in the consolidation.

An exception to the accounting policy of excluding fixed assets from the consolidation is the treatment of those entities designated "commercial enterprises" by the Treasury Department. Although the assets and liabilities of commercial enterprises are not aggregated on a line-by-line basis in the consolidated financial statements of the Province, they are recorded therein on an equity accounting basis. This has the effect of including the depreciated values of their fixed assets in the computation of the accumulated surplus of the Province. Entities designated commercial enterprises are:

Alberta Liquor Control Board
Alberta Terminals Ltd.
The Alberta General Insurance Company
The Alberta Government Telephones Commission
The Workers' Compensation Board
Treasury Branches Deposits Fund

The rationale for including the assets of these entities is that the assets will be used in future fiscal periods to earn revenue. The remainder of the Province's fixed assets are not included in the consolidated net assets. It is impossible for the Audit Office to estimate, with any degree of accuracy, the value of the excluded fixed assets.

Regardless of the valuation method used, it is obvious that including all of the Province's fixed assets in the consolidated statements would increase significantly the Province's accumulated surplus at March 31, 1984.

3.2.7 Another accounting policy that has a significant impact on the accumulated surplus is the method used to account for the Province's pension plan liabilities. As explained fully in subsection 2.5.4 of this report, the unfunded portion of the Province's pension plan liabilities is recorded in a footnote to the consolidated financial statements. Hence, it is not included in the computation of the accumulated surplus. Depending on the assumptions made in calculating the liability, and assuming that no portion of it is deferred, including the full liability for pension plan obligations would reduce the Province's accumulated surplus at March 31, 1984 by approximately $4.1 billion.

3.2.8 The foregoing comments are to provide the reader with a better understanding of the consolidation process and what the accumulated surplus at March 31, 1984 represents. They should not be interpreted as criticisms of the methods used.

Sources of Consolidated Revenue and Expenditure

3.2.9 The consolidated statement of revenue and expenditure summarizes the various transactions under headings that describe generally the nature of the revenues and expenditures. This constitutes normal and appropriate financial reporting. The following is a restatement of the consolidated results for the past three years showing where the revenues and expenditures originated.

	1982-83	1983-84
	(Millions of Dollars)	
Annual surpluses (deficits) of consolidated entities:		
General Revenue Fund	$(2,054.8)	$ (59.4)
Alberta Heritage Savings Trust Fund	1,563.0	425.0
Other regulated funds	41.8	41.3
Provincial agencies	(320.5)	(130.2)
Commercial enterprises	(23.3)	(37.0)
Consolidated annual surplus (deficit)	$ (793.8)	$ 239.7

The above figures are before elimination of inter-entity transactions but after adjustments necessary to bring the reporting entities to the same basis of accounting that is employed by the General Revenue Fund. For example, Capital Projects Division expenditures that are treated as investments in the financial statements of the Alberta Heritage Savings Trust Fund are written off as expenses for consolidation purposes.

Taxation Revenues

3.2.10 Taxation revenues reported in the Province's consolidated financial statements for the past four years comprised:

	1980-81	1981-82	1982-83	1983-84
		(Thousands of Dollars)		
Personal income taxes	$ 937,636	$1,322,699	$1,650,142	$1,481,267
Corporate income taxes	434,718	415,716	(162,511)	152,067
Freehold mineral rights tax	145,796	134,826	155,897	159,953
Contributions from municipalities on equalized assessment	103,296	123,874	146,448	154,977
Tobacco tax	24,374	26,663	32,606	98,609
Miscellaneous	64,124	97,761	99,655	105,152
Total	$1,709,944	$2,121,539	$1,922,237	$2,152,025

Note 1(c) to the consolidated financial statements explains that personal and corporate income tax revenues are reported on a cash basis. This means that the figures in the public accounts represent cash received during the year without adjustments for taxes owed or prepaid to the Province at the beginning and end of each fiscal year. If the consolidated financial statements were prepared in accordance with generally accepted accounting principles, this accounting treatment would be a departure therefrom.

Furthermore, both personal and corporate income taxes are reported net of various allowances, rebates and credits. These deductions are commonly referred to as tax expenditures since, in effect, they are expenditure programs that are "disbursed" by allowing the programs' recipients to deduct their benefits from taxes payable to the Province.

Since the public accounts do not report the costs of all tax expenditure programs separately, the information is provided in this report. It should be noted, however, that although both federal and provincial legislation affect Alberta income tax payable, only the costs of Provincial incentives that affect tax payable without changing taxable income, are reported here since they are Alberta programs.

The Province has two methods of collecting income taxes:

— The first method is used to collect income taxes from individuals:

  Under this method the Government of Canada, as agent of the Province, assesses for and on behalf of the Province net individual income taxes imposed under the Alberta Income Tax Act and remits amounts in respect thereof to the Province.

The tax collection agreement provides that for each taxation year, the Government of Canada shall pay instalments on account to the Province beginning on March 1 of the taxation year in question and ending in February of the next taxation year. These instalments on account are based on estimates of Provincial income tax assessments as calculated by the Government of Canada.

The Government of Canada settles with the Province for the taxes assessed for a taxation year as follows:

i) The settlement date is fifteen months after the end of the taxation year.

ii) The settlement amount is determined by the assessments issued, for the taxation year in question, until the end of the following taxation year.

iii) Taxes assessed after the aforementioned cut-off date are paid to the Province with the settlements for subsequent taxation years.

All costs, charges and expenses, including the cost of bad debts written off, incurred in the collection of taxes by the Government of Canada to administer the Alberta Income Tax Act are paid by the Government of Canada. In consideration of the collection of taxes by the Government of Canada, the Province allows the Government of Canada to retain any penalties, fines or other amounts awarded in judicial proceedings (except penalties imposed under section 27 of the Provincial Act) together with any interest that is payable by a taxpayer under the Provincial Act. The Government of Canada charges fees to the Province for administering the Provincial tax credit, tax rebate and other tax reduction programs.

— The second method is used to collect income taxes from corporations:

Under the Alberta Corporate Income Tax Act, corporations pay instalments on account to and file income tax returns with the Province. For fiscal years commencing prior to January 1, 1981, corporations filed returns with the Government of Canada in a similar manner to individuals.

3.2.12 Subsection 2.6.6 of this report notes that in previous annual reports, the Auditor General has suggested that the Treasury Department take steps to estimate how much of the personal income taxes to which Alberta is entitled should be assessed and collected by the Government of Canada. Not only would this provide information as to whether the Province is receiving a reasonable portion of its tax entitlement, it could also provide estimates of personal income tax revenues payable to or by the Province at fiscal year ends. Since the Province assesses and collects its own corporate income taxes, it would then be in a position to report personal and corporate income taxes on an accrual basis rather than on a cash basis.

The following figures show individual and corporate income tax instalments received on account and the cost of related Provincial tax reduction programs and administration fees paid to the Government of Canada for the years ended March 31, 1981 to 1984. Except for corporate income tax figures for recent years, these figures are extracted from information supplied by the Government of Canada:

PERSONAL INCOME TAXES

	1980-81	1981-82	1982-83	1983-84
		(Thousands of Dollars)		
Assessments and instalments on account (Note 1)	$ 971,039	$1,343,934	$1,682,048	$1,525,383
Share of unapplied taxes (Note 2)	6,277	25,118	20,956	27,480
Gross receipts	977,316	1,369,052	1,703,004	1,552,863
Less:				
Renter assistance credits	30,325	33,543	37,332	38,869
Royalty tax credits	7,109	10,063	12,344	28,666
Royalty tax rebates	1,332	2,054	2,338	2,399
Political contribution deductions	521	234	325	953
Total tax credits, rebates and deductions	39,287	45,894	52,339	70,887
Administration fees	393	459	523	709
Total deductions	39,680	46,353	52,862	71,596
Net receipts	$ 937,636	$1,322,699	$1,650,142	$1,481,267

Notes:

1) Assessments are reported net of foreign income tax deductions, selective tax reductions, penalties assessed under section 27 of the Alberta Income Tax Act and remissions of income taxes payable on Alberta social assistance payments and on benefits and allowances to employees in isolated posts.

2) Unapplied taxes are amounts deducted at source from employees that have not, because of the failure of some employees to file tax returns, been allocated to the different jurisdictions.

CORPORATE INCOME TAXES

	1980-81	1981-82	1982-83	1983-84
		(Thousands of Dollars)		
Assessments and instalments on account (Note 1)	$651,023	$718,657	$ 736,606	$871,423
Allocated to the Utility Companies Income Tax Rebates Fund (Note 2)	6,561	33,028	42,862	50,806
Gross receipts	644,462	685,629	693,744	820,617
Less:				
Royalty tax credits (assessments and instalments)	108,176	131,994	728,238	578,773
Small business deductions	56,278	70,819	101,553	81,453
Royalty tax rebates (Note 3)	44,163	66,581	24,186	5,631
Extended rental investment tax credit	–	–	–	505
Rental investment tax credits	–	–	476	571
Foreign tax credits	862	172	1,072	420
Corporation capital gains refunds	59	280	582	983
Political contribution deductions and tax credits	156	17	98	214
Total tax credits, rebates and deductions	209,694	269,863	856,205	668,550
Administration fees	50	50	50	–
Total deductions	209,744	269,913	856,255	668,550
Net receipts (disbursements)	$434,718	$415,716	$(162,511)	$152,067

Notes:

1) Assessments are reported net of royalty tax deductions where applicable (see Note 3) and include penalties and interest received under the Alberta Corporate Income Tax Act. Interest paid under the aforementioned Act is reported as a budgetary expenditure.

2) Allocations to the Utility Companies Income Tax Rebates Fund are made under section 3 of the Utility Companies Income Tax Rebates Act. The allocations are based on Provincial income taxes paid or estimated to have been paid by utility companies, carrying on business in Alberta, on revenues earned on sales of electrical energy, gas or steam in the Province to the public. The utility companies have agreed with the Provincial Treasurer that all payments made to them will be distributed to persons who are their wholesale or retail customers in Alberta.

3) Under the Alberta Corporate Income Tax Act there are no royalty tax rebates. Instead, a royalty tax deduction from taxable income is allowed before applying the Alberta allocation factor. This has the same effect as a royalty tax rebate on corporate income taxes payable to the Province. This change has resulted in a reduction of royalty tax rebates and an offsetting reduction in assessments and instalments on account. Royalty tax deductions, which are not separately shown above, reduced the taxes assessed in the 1983-84 and 1982-83 fiscal years by $146,014,434 and $143,401,867 respectively.

Valuation of Long-Term Investments

3.2.13 During 1982-83 and 1983-84, most of the Province's funds and agencies that hold long-term investment portfolios containing long and medium-term debt securities adopted the deferral and amortization method of accounting for these securities.

The deferral and amortization method is only used where the objectives of the investment portfolio are long-term and where the general practice is to purchase and hold fixed-term

securities until maturity, rather than to trade in such securities. The method assumes that the proceeds of a sale of a fixed term security are reinvested in other fixed term securities to be held until maturity, and thus the sale and reinvestment can be regarded as an exchange.

Under the deferral and amortization method generally adopted by the Government and its agencies, gains and losses on sales are deferred and amortized over the lesser of ten years or the period to maturity of the securities sold. The long and medium term debt security portion of the portfolio is valued at cost plus or minus the unamortized balance of gains or losses on the securities sold. This differs considerably from the previously used and more conventional method of accounting under which unrealized gains and losses and gains and losses on sales were charged to or against income in the year in which the sale took place.

The deferral and amortization method cannot be employed for sales from a portfolio that is reducing in size since, clearly, the exchange concept cannot apply. Similarly, it cannot be used when accounting for sales of stocks, shares and other equities because these securities do not mature. Gains and losses on sales of long-term portfolio securities to which the deferral and amortization method does not apply continue to be reflected in income in the fiscal years in which the sales take place.

Most accounting entities, including the Province's consolidated financial statements, used the deferral and amortization method of accounting for their long-term debt securities for the 1982-83 fiscal year; others adopted it for 1983-84. The cumulative effect of the change was not significant in dollar terms because within each fund or accounting entity to which the method was applied, aggregate market value at the date of application was above the cost of the investment.

Although the deferral and amortization method of accounting for debt securities is not widely used, the Auditor General and specialists in the investment industry with whom he has consulted consider it to be appropriate in the circumstances.

Capital Funding for Provincial Corporations

3.2.14 In recent years, Alberta's Provincial corporations have satisifed almost all their capital funding requirements from the Alberta Heritage Savings Trust Fund. During 1983-84, however, Provincial corporations obtained only $591 million of new financing from the Heritage Fund. The comparable figure for 1982-83 was $2,243 million. The reduced demand on the Heritage Fund can be traced to a reduced demand for the program activities of some Provincial corporations and to some Provincial corporations re-entering capital markets.

Capital for Provincial corporations was obtained from the public in two ways: by Provincial corporations selling their debentures into the market and by the Province issuing promissory notes.

In December 1983, the Alberta Provincial Corporation Loan Fund commenced operations under the authority of the Financial Administration Act. The Act permits the Provincial Treasurer, under certain conditions, to purchase the securities of Provincial corporations using money from the Loan Fund. The Loan Fund was provided with investment capital from the Province's promissory note issues. In the first three and a half months of its operations the Loan Fund provided Provincial corporations with $366 million of short-term financing.

4 WORK OF THE AUDIT OFFICE (Reported pursuant to subsection 19(1)(a) of the Auditor General Act)

4.1 THE AUDITOR GENERAL AS AUDITOR

4.1.1 The clientele of the Audit Office is prescribed by section 12 of the Auditor General Act. Section 12(a) of the Act appoints the Auditor General auditor of every department, regulated fund, revolving fund and Provincial agency. Section 12(b) of the Act enables the Auditor General, with the approval of the Select Standing Committee on Legislative Offices, to be appointed auditor of a Crown-controlled organization or any other organization or body.

The entities audited each year by the Audit Office are listed in the following paragraphs indicating the Legislative authority for the Auditor General's appointment.

4.1.2 The Public Accounts for the fiscal year ended March 31, 1984 contain the audited consolidated financial statements of the Province of Alberta, the audited financial statements of the General Revenue Fund and the audited financial statements of the following Provincial agencies, revolving funds and regulated funds. The Auditor General is auditor of these entities pursuant to section 12(a) of the Auditor General Act:

Advanced Education:
- Students Finance Board

Agriculture:
- Agricultural Research Council of Alberta
- Alberta Agricultural Development Corporation
- Alberta Agricultural Research Trust
- Alberta Dairy Control Board
- Alberta Hail and Crop Insurance Corporation
- Alberta Terminals Ltd.
- Irrigation Land Manager
- The Horned Cattle Purchases Act Trust Account
- Wheat Board Money Trust Account

Attorney General:
- Public Trustee
- The Alberta General Insurance Company

Culture:
- Culture Revolving Fund
- Glenbow-Alberta Institute
- The Alberta Art Foundation
- The Alberta Cultural Heritage Foundation
- The Alberta Foundation for the Performing Arts
- The Alberta Historical Resources Foundation
- The Government House Foundation

Economic Development:
- Alberta Motion Picture Development Corporation

Education:
- School Book Branch
- School Foundation Program Fund
- Teachers' Retirement Fund

Energy and Natural Resources:
- Alberta Oil Sands Technology and Research Authority
- Alberta Petroleum Incentives Program Fund
- Alberta Petroleum Marketing Commission
- Forest Development Research Trust Fund
- Natural Gas Pricing Agreement Act Fund

Environment:
- Alberta Environmental Research Trust
- Environment Council of Alberta
- Surface Reclamation Fund
- Water Resources Revolving Fund

Executive Council:
- Alberta Research Council
- Energy Resources Conservation Board
- The Alberta Educational Communications Corporation
- The Workers' Compensation Board

Hospitals and Medical Care:
- Edmonton Area Hospital Planning Council Fund
- Health Care Insurance Fund

Housing:
- Alberta Home Mortgage Corporation
- Alberta Housing Corporation

Municipal Affairs:
- Alberta Planning Fund
- Improvement Districts' Trust Account
- Metis Population Betterment Trust Account
- Metis Settlements Trust Fund
- Special Areas Trust Account

Public Works, Supply and Services:
- Public Works, Supply and Services Revolving Fund

Recreation and Parks:
- Alberta Games Council
- The Recreation, Parks and Wildlife Foundation

Social Services and Community Health:
- The Alberta Alcoholism and Drug Abuse Commission

Solicitor General:
- Alberta Liquor Control Board
- Alberta Racing Commission
- Motor Vehicle Accident Claims Fund

Tourism and Small Business:
- Alberta Opportunity Company

Transportation:
- Alberta Resources Railway Corporation
- Transportation Revolving Fund

Treasury:
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Scholarship Fund
- Alberta Municipal Financing Corporation
- Alberta Provincial Corporation Loan Fund
- Consolidated Cash Investment Trust Fund
- General Trust Account
- Land Purchase Fund
- Municipal Land Loans Act
- Pension Fund
- Retirement Annuities Fund
- Treasury Branches Deposits Fund

Utilities and Telecommunications:
- Alberta Electric Energy Marketing Agency
- Gas Alberta Operating Fund
- The Alberta Government Telephones Commission
- The Alberta Government Telephones Employees' Group Life Insurance Trust Account
- The Alberta Government Telephones Employees' Pension and Death Benefit Fund

In addition, the public accounts also contain audited summary financial statements which incorporate the results and financial position of 10 other regulated funds and 32 trust and other funds over which the Legislature has no power of appropriation. In the opinion of the Auditor General, inclusion of these audited financial statements in the Public Accounts of the Province satisfies the reporting requirements of section 77 of the Financial Administration Act.

4.1.3 The audited financial statements of the following entities are not included in the Public Accounts because they are exempted from inclusion by section 2(5) of the Financial Administration Act. The Auditor General is auditor of these entities, which are the provincially owned universities, colleges, technical institutes, hospitals and related funds, pursuant to section 12(a) of the Auditor General Act:

Advanced Education:
- Colleges:
  - Fairview College
  - Grande Prairie Regional College
  - Grant MacEwan Community College
  - Keyano College
  - Lakeland College
  - Lethbridge Community College
  - Medicine Hat College
  - Mount Royal College
  - Olds College
  - Red Deer College
- The Banff Centre for Continuing Education
- Technical Institutes:
  - Northern Alberta Institute of Technology
  - Southern Alberta Institute of Technology
  - Westerra Institute of Technology
- Universities:
  - Athabasca University
  - The University of Alberta
  - The University of Calgary
  - The University of Lethbridge
- Academic Pension Plan Fund of the University of Alberta
- Chembiomed Ltd.

Hospitals and Medical Care:
- Alberta Heritage Foundation for Medical Research
- Edmonton Radiopharmaceutical Centre
- University Hospitals Foundation
- Hospitals:
  - Alberta Children's Provincial General Hospital
  - Alberta Hospital Edmonton
  - Alberta Hospital Ponoka
  - Foothills Provincial General Hospital
  - Glenrose Rehabilitation Hospital
  - Provincial Cancer Hospitals
  - University of Alberta Hospitals

Although the audited financial statements of these entities are excluded from the Public Accounts, section 2 (5.1) of the Financial Administration Act requires the ministers responsible for administrating the statutes under which they operate to lay a copy of these financial state-

ments before the Legislative Assembly, except for the financial statements of the Alberta Heritage Foundation for Medical Research. Furthermore, the Provincial Treasurer has undertaken, as a convenience to regular users of the Public Accounts, to request that the appropriate ministers make available sufficient copies of the financial statements to enable them to be sent to all who request them. In this manner, an appropriate degree of accountability is achieved.

4.1.4 The financial statements of the following entities are also audited by the Auditor General pursuant to section 12(a) of the Auditor General Act and are not reproduced in the Public Accounts of the Province:

Advanced Education:
- Hydrocarbon Research Centre
- The Alberta Microelectronic Centre
- The Arctic Institute of North America

Agriculture:
- Lambco, a division of Alberta Agricultural Development Corporation

Culture:
- Glenbow Foundation
- Luxton Museum, a department of Glenbow-Alberta Institute
- Luxton Museum Ltd.

Education:
- Northland School Division No. 61

Utilities and Telecommunications:
- Alta-Can Telecom Inc.

In most cases, the information contained in the financial statements of the above entities is also contained in other financial statements included in either the Public Accounts or in the audited financial statements of entities exempted from inclusion in Public Accounts by section 2(5) of the Financial Administration Act.

4.1.5 Pursuant to the provisions of section 12(b) of the Auditor General Act, the Select Standing Committee on Legislative Offices approved the Auditor General's appointment as auditor of the following entities:

Canadian Energy Research Institute
Canadian Institute of Resources Law
Centre for Frontier Engineering Research Institute
Foothills Hospital Employees' Charity Fund
Foothills Hospital Foundation
Glenrose Rehabilitation Hospital Employee Benevolent Fund
Glenrose Rehabilitation Hospital Employee Charities Fund
Grande Prairie Regional College Foundation
New Western Film & Television Foundation
Olds College Foundation
Petroleum Recovery Institute
Sulphur Development Institute of Canada (SUDIC)
The Canadian Association of Youth Orchestras
The University of Alberta Foundation
The Trustees' of the Academic Staff Benefits Plans of The University of Alberta
University of Alberta Hospitals Employees' Benevolent Fund
University of Alberta Hospitals Employees' Charities Trust

The Auditor General was appointed auditor of the above entities at the request of management. Since in these instances there is no direct accountability to the Legislative Assembly, it is not considered appropriate to reproduce the audited financial statements in this report; nor are they included in the Public Accounts of the Province.

4.1.6 In addition to the entities covered by section 12 of the Auditor General Act, the Auditor General is also auditor of fourteen irrigation districts operating under the authority of the Irrigation Act, Chapter I-11, Revised Statutes of Alberta 1980. These irrigation districts are not provincially

owned but receive cost-sharing funding for capital improvements from the Province of Alberta, particularly from the Alberta Heritage Savings Trust Fund. The Auditor General is appointed auditor of these districts under section 43 of the Irrigation Act. The irrigation districts concerned are:

Aetna Irrigation District
Bow River Irrigation District
Eastern Irrigation District
Leavitt Irrigation District
Lethbridge Northern Irrigation District
Macleod Irrigation District
Magrath Irrigation District
Mountain View Irrigation District
Raymond Irrigation District
Ross Creek Irrigation District
St. Mary River Irrigation District
Taber Irrigation District
United Irrigation District
Western Irrigation District

These irrigation districts are independently incorporated with no direct accountability to the Legislative Assembly. Accordingly, the audited financial statements are not included in the Public Accounts of the Province.

4.1.7 Under the terms of the Alberta Crown Agreement, the Auditor General, acting on behalf of the Minister of Energy and Natural Resources, post-audits on a continuing basis the books and records of the Syncrude Project. The purpose of this monitoring activity is to give assurance as to compliance with the Alberta Crown Agreement and related accounting manual and to verify the determination of the deemed net profit or loss of the Project, thereby establishing the quantity of synthetic crude oil and other leased substances that may be taken by the Province of Alberta as royalty. This right is currently being exercised by the Office of the Auditor General pursuant to the Agreement.

The financial statements of Syncrude Canada Ltd, which operates the Syncrude Project, are audited by a firm of chartered accountants.

4.1.8 Crown-controlled organizations are defined by subsection 1(b) of the Auditor General Act. Essentially, these entities qualify to be so designated because the Province of Alberta owns more than 50% but less than 100% of the issued voting shares. Crown-controlled organizations existing during the 1983-84 fiscal year were as follows:

Alberta Helium Limited
Pacific Western Airlines Ltd.
The University of Alberta Foundation

As explained in subsection 4.1.5 of this report, the Auditor General is auditor of The University of Alberta Foundation. The financial statements of Alberta Helium Limited and Pacific Western Airlines Ltd. (which ceased to be a Crown-controlled organization in December 1983 when it became less than 50% owned by the Province) are not audited by the Auditor General. The Auditor General's responsibilities for the financial statements of Crown-controlled organizations of which he is not auditor, are limited to the review function described in section 16 of the Auditor General Act.

4.1.9 The financial statements of the Alberta Energy Company, which was 45% owned by the Province of Alberta and therefore not a Crown-controlled organization, are neither audited by the Auditor General nor subject to section 16 of the Auditor General Act.

4.2 REPORTING RESPONSIBILITIES

4.2.1 The Auditor General reports to the Legislative Assembly under sections 18, 19 and 20 of the Auditor General Act, and to management under section 28 of the Act. In addition, specially requested reports are issued from time to time under section 17 of the Auditor General Act.

Section 18 Reports

4.2.2 In a report issued under section 18 of the Act, the Auditor General states whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and whether they are on a basis consistent with those of the preceding year. A report of this nature is similar to reports issued by auditors on financial statements of private sector organizations audited in accordance with generally accepted auditing standards.

The section 18 report for the 1983-84 fiscal year was dated March 4, 1985 and is reproduced in subsection 1.3.3 of this report. Similar reports were issued on the financial statements of all entities of which the Auditor General is auditor. These reports are annexed to the related financial statements, most of which are contained in the Public Accounts of the Province.

Section 19 Reports

4.2.3 In a report issued under section 19 of the Act (this report), the Auditor General reports to the Legislative Assembly on the work of the Audit Office, and various other matters specified in section 19 of the Act, that were observed during the course of that work. There is virtually no limitation to what may be included in a section 19 report, since the Act empowers the Auditor General to call attention to any matter that he considers should be brought to the attention of the Legislative Assembly.

Section 20 Reports

4.2.4 In a report issued under section 20 of the Act, the Auditor General may report to the Legislative Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until presentation of his annual report issued under section 19 of the Act.

No reports were issued under section 20 of the Act in respect of the fiscal year ended March 31, 1984.

Section 28 Reports

4.2.5 Reports issued under section 28 of the Act are more commonly referred to as management letters. The purpose of management letters, as explained more fully in subsection 2.1.7 of this report, is to communicate to management system weaknesses and deficiencies together with other matters observed during audits.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. Copies of most management letters are sent to the minister responsible for the audited entity and to the Secretary of the Treasury Board (except for Provincial agencies exempt under section 2(5) of the Financial Administration Act). Management letters are not made available to the Legislative Assembly or its select standing committees, nor are they required to be by the Auditor General Act.

Section 17 Reports

4.2.6 Under section 17 of the Auditor General Act, the Legislative Assembly and the Executive Council may ask the Auditor General to perform special duties. Whether or not those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1983-84 fiscal year, the Auditor General received no requests to perform special duties pursuant to section 17 of the Auditor General Act.

Audit Committee

4.2.7 Reports issued by the Auditor General under sections 19 and 20 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Select Standing Committee on Legislative Offices. Before being tabled, however, they are reviewed by an Audit Committee established under section 21 of the Auditor General Act. The members of this Committee, all of whom are appointed by Order in Council, are as follows:

Mr. Haughton G. Thomson, F.C.A.
Retired Partner
Deloitte Haskins & Sells, Chartered Accountants
Edmonton

Mr. Elvin A. Christenson, F.C.A.
Retired Partner
Thorne Riddell, Chartered Accountants
Edmonton

Mr. Robert Colborne
President
Pacific Western Transportation Limited
Calgary

His Honour Clare L. Liden
Assistant Chief Judge
Provincial Court of Alberta

Mr. Robert A. McLaughlin
Retired Systems Analyst
Edmonton

Mr. William G. Stephen, F.C.A.
Partner
Stephen Johnson, Chartered Accountants
Calgary

Honourable Louis D. Hyndman, Q.C.
Provincial Treasurer of Alberta

The Auditor General acknowledges the helpful and constructive contributions of the Audit Committee during the review stage of the annual report for the 1983-84 fiscal year.

4.3 AUDIT ACTIVITIES AND RESPONSIBILITIES

Role of a Legislative Auditor

4.3.1 As explained in subsection 4.2 of this report, the Auditor General Act deals with the role of the Auditor General in terms of his reporting responsibilities. Only by inference, however, does it deal with what those reports should attempt to achieve and how the role of the Auditor General should impact the financial administration of the Province's affairs.

4.3.2 A major role of all auditors is to provide assurance that financial information is reliable. In the private sector, for example, auditors provide assurance to shareholders of corporations that the financial statements issued by management are fairly presented. Similarly, legislative auditors provide assurance to their legislative bodies that the financial and other accountability information issued by governments is fairly presented.

4.3.3 To appreciate the significance of a legislative auditor's role, it is necessary to understand the importance of accountability. In simple terms, accountability is the process by which governments are "held accountable" for complying with and not exceeding the authorities given by their legislative bodies. These authorities may be primary authorities such as statutes, or subordinate authorities issued pursuant to primary authorities such as orders in council, regulations, ministerial orders, policy directives, corporation by-laws, contracts, agreements and administrative manuals. By providing authorities and requiring full compliance with them, legislative bodies control the administration of their jurisdictions. Periodically, the individuals and entities that receive these authorities must report back on how the authorities were exercised. Naturally, the form of these reports will depend on the nature of the authorities provided.

4.3.4 Accountability reports not only show legislative bodies how the authorities they have issued were exercised, they also frequently provide a basis for future policy decisions. Hence, it is important that the information reported be accurate and fairly stated. The work of independent legislative auditors, therefore, adds credibility to accountability reports and provides assurance to legislators that their decisions are based on reliable information.

4.3.5 The Auditor General's role, in this regard, can be illustrated by describing the accountability process as it relates to the Province's annual expenditure Appropriation Acts. Each year, the Government of Alberta presents its expenditure budgets (estimates) for debate in the Legislative Assembly. Once the estimates are formally approved by the Legislature, they take the form of Appropriation Acts, and the Government and its administrators are responsible for their implementation. In this way, the Legislature delegates authority to the Government to disburse funds for the approved purposes, to manage resources in an economic and efficient manner, and to evaluate the effectiveness of the programs involved.

Together with this authority goes a responsibility to report back to the Legislative Assembly on how the funds and resources were administered.

4.3.6 The principle accountability information of a financial nature tabled in the Legislative Assembly is the annual Public Accounts of the Province. These are prepared by the Treasury Department and tabled by the Provincial Treasurer. Each set of financial statements contained therein includes a report by the Auditor General as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the entity concerned, in accordance with a disclosed basis of accounting and whether they are presented on a basis consistent with that of the preceding period. Because of his independent status and his position as an officer of the Legislature, the Auditor General's opinions add credibility to the accountability information contained in the Public Accounts.

4.3.7 Accountability information is also subject to scrutiny by the Select Standing Committee on Public Accounts. This all-party committee acts on behalf of the Members of the Assembly in conducting an in-depth examination of the Government's management and control of public resources. Here again, the Auditor General impacts the accountability process by issuing an

annual report (this report) which may be used as a guide by the Select Standing Committee in its review of the Public Accounts and the activities of individual departments, Provincial agencies and regulated and revolving funds.

4.3.8 Adding credibility to accountability information, however, is only one of the functions of a legislative auditor. As a by-product of the audit work necessary to add this credibility, the auditor also advises financial managers on systems designed to strengthen internal control, to detect irregularities, to promote economy and efficiency and to control and administer resources. The auditor also provides assurance, or otherwise, to senior management of departments, funds and Provincial agencies as to the quality of their financial administration. Through his annual reports, he also provides similar assurance to the Legislative Assembly on the financial administration of the Province. In addition, there is little doubt that the knowledge that their work will be audited every year has a salutary effect on staff who might otherwise be tempted to misuse public monies.

Auditing Standards

4.3.9 Although the Auditor General Act prescribes the Auditor General's reporting responsibilities, it is silent as to the auditing standards that are appropriate to discharging those responsibilities. The Auditor General believes, however, that the work of his Office should adhere, as a minimum, to the contemporary auditing standards that apply to chartered accountants auditing in the private sector.

4.3.10 The Canadian Institute of Chartered Accountants (CICA) develops and publishes in its Members' Handbook recommendations that constitute generally accepted auditing standards, as they apply within Canada. These standards are intended to apply mainly to audits of financial statements of profit oriented enterprises. Since most government entities do not fall within this description there are, in effect, no generally accepted standards for public sector auditing.

4.3.11 In 1981, the CICA established a Public Sector Accounting and Auditing Committee (PSAAC) to address and publish statements and recommendations on public sector accounting and auditing issues. PSAAC has stated that its auditing recommendations will supplement the CICA Handbook's auditing recommendations to the extent necessary to recognize special circumstances in audits of financial statements of federal, provincial and territorial government entities. It will also publish recommendations to address the wider audit-related responsibilities of legislative auditors in these jurisdictions.

4.3.12 In the summer of 1984, PSAAC issued for public comment two exposure drafts entitled "Auditing in the Public Sector" and "Audit of Financial Statements".

4.3.13 "Auditing in the Public Sector" acknowledges the special circumstances and different environment encountered by public sector auditors. It notes, for example, that whereas most private sector entities employ resources to generate profits, most public sector entities spend to achieve a variety of social and economic goals. For this reason, conventional financial statements, as developed for profit oriented enterprises, may be unable to provide a comprehensive measure of a public sector entity's success. Rarely will such statements be able to provide the information that legislators may require relating to, for example:

- compliance with financial and administrative authorities,
- adequacy of management control systems,
- economy and efficiency in the administration of resources, and
- effectiveness of programs.

These differences can have a fundamental impact on the way in which public sector auditors approach their duties and report their findings. In particular, the legislation in some jurisdictions requires the auditor, rather than the government, to report on matters of this nature. Regardless of the prevailing legislation, however, the exposure draft encourages public sector auditors to

adhere to established rules of professional conduct concerning the public interest in discharging their responsibilities.

4.3.14 "Audit of Financial Statements" deals with auditing public sector financial statements. It suggests that although the reporting objectives for financial statements of non-profit oriented entities may differ substantially from those of profit oriented entities, nevertheless, the audit objectives for both types of audit are similar. Both are designed to express an opinion on whether the financial statements are presented fairly in accordance with an appropriate disclosed basis of accounting. Hence, since readers of all financial statements are entitled to a uniform quality of audit assurance, audits of public sector financial statements should be conducted in accordance with the same generally accepted auditing standards that apply to audits of private sector entities.

In addition and where appropriate, auditors of public sector financial statements should keep in mind the auditing recommendations in the CICA Handbook that provide guidance for adhering to generally accepted auditing standards.

4.3.15 The exposure draft notes that auditors of non-profit oriented public sector entities need to assess whether the accounting policies followed in preparing and presenting financial statements are appropriate in the circumstances. In this regard, it acknowledges that generally accepted accounting principles that are appropriate for profit oriented entities may often be inappropriate for non-profit oriented public sector entities. It also notes that where public sector financial statements are presented in accordance with accounting policies dictated by legislation, and in the auditor's opinion the application of those policies could materially mislead a reader of the statements, then the auditor has a professional responsibility to express a reservation of opinion on the financial statements.

4.3.16 In early 1985, PSAAC issued its third auditing exposure draft entitled "Auditing for Compliance with Legislative and Related Authorities". This exposure draft defines and discusses compliance auditing and suggests auditing standards for auditors who:

(a) express an opinion on whether transactions are carried out in compliance with specified legislative authorities, or,

(b) report whether the transactions that were examined complied with the legislative authorities against which they were audited, and/or,

(c) report observed instances of non-compliance with legislative authorities.

In Alberta, the Auditor General's responsibilities respecting compliance with legislative authorities fall mainly within areas of (b) and (c) above. The standards recommended by PSAAC for work of this nature are as follows:

When carrying out auditing procedures to determine whether transactions (and activities) are or are not in compliance with authorities, the auditor should ensure that:

(1) The work is performed and the report prepared by a person or persons having adequate technical training and proficiency in auditing, with due care and with an objective state of mind. They should have adequate knowledge of the authorities that apply to the entity being audited.

(2) The work is adequately planned and properly executed. If assistants are employed they are properly supervised.

(3) There is sufficient appropriate evidence to support the results reported.

The report on compliance and/or instances of non-compliance with authorities should:

(1) describe the entity subject to the report;

(2) describe the procedures applied, the transactions examined and the authorities against which they were audited;

(3) state, when required, whether, in the auditor's judgement, the transactions to which the procedures are applied complied with the authorities;

(4) state instances which, in the auditor's judgement, are in non-compliance together with, if practical and relevant, their monetary effect; and

(5) state that no assurance as to compliance is provided with respect to transactions not subjected to the auditing procedures applied or to other authorities.

The report should not use the terms "in my opinion" and "generally accepted auditing standards".

In most material respects, the Audit Office has for many years adhered to the auditing recommendations and suggestions contained in the aforementioned three exposure drafts.

4.3.17 Before leaving the subject of auditing standards, and to avoid possible misunderstandings, it may be appropriate to elaborate on the application of generally accepted auditing standards to the detection of fraud and error.

In an examination made in accordance with generally accepted auditing standards, an auditor fulfills his professional responsibility by complying with those standards. When conducting an audit in accordance with generally accepted auditing standards, an auditor seeks reasonable assurance that fraud and error, which may be material to the financial statements or other accountability information, have not occurred or that, if they have occurred, they are corrected and appropriately reported. When planning his examination, the auditor is responsible, within the inherent limitations of the auditing process, for considering the risk of fraud and error and being alert for circumstances that might cause him to suspect their existence. If at any time his suspicions are aroused, the auditor must perform additional procedures to confirm or dispel those suspicions. Beyond that, the auditor has no separate or additional responsibility for detecting fraud and error.

It must be realized, therefore, that an audit performed in accordance with generally accepted auditing standards may not detect, and is not primarily designed to detect, every instance of fraud or error. The inherent limitations in the audit process are virtually unavoidable. An auditor would not have the resources to examine the circumstances behind and the support for every transaction recorded. Even if he had, he could not be sure that there were no unrecorded transactions. Furthermore, collusion between auditee personnel and outside parties, or among management or employees could result in apparently genuine but falsified transactions and documents being accepted by the auditor.

Accounting Principles

4.3.18 Financial statements cannot provide meaningful information unless people who use them are familiar with the accounting policies and reporting practices employed in their preparation. In the private sector, generally accepted accounting principles are recognized by authoritative support and precedent as the accounting principles that apply to profit oriented entities. At the present time, however, no such accounting principles are generally accepted as applying to non-profit oriented public sector entities.

4.3.19 A CICA research study published in 1980 called attention to the wide diversity of accounting principles employed by public sector entities in Canada. It also recommended that steps be taken to encourage greater standardization of financial reporting practices. In 1983, PSAAC announced that over a period of time, it would issue statements and make recommendations aimed at improving and harmonizing public sector accounting and reporting at the federal, provincial and territorial government levels.

The first Public Sector Accounting Statement entitled "Disclosure of Accounting Policies" was issued in September 1983. The recommendations it contained were as follows:

— A clear and concise description of all significant accounting policies of a reporting entity should be included as an integral part of its financial statements.

— As a minimum, disclosure of information on accounting policies should identify and describe:

(a) the reporting entity and, where applicable, the method of consolidation or combination;

(b) the basis of accounting used in the financial statements; and

(c) the specific accounting policies selected and applied to significant assets, liabilities, revenues and expenditures.

— Whenever there is a change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods, the nature of the change, the reason for it and its effect on the financial statements of the current period should be disclosed in a separate note.

4.3.20 In all material respects, the financial statements of Province of Alberta entities comply with these recommendations, and they have done so for many years.

4.3.21 In November 1984, a Public Sector Accounting Statement entitled "Objectives of Government Financial Statements" was issued. Its objective was to propose consistent and appropriate accounting principles and reporting standards for summary (ie. consolidated) financial statements for governments.

To this end, the statement proposed that summary financial statements for governments should satisfy the following five objectives:

(1) Financial statements should communicate reliable information relevant to the needs of those for whom the statements are prepared, in a manner that maximizes its usefulness. As a minimum, this requires information that is clearly presented, understandable, timely and consistent.

(2) Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources for which the government is responsible including those related to the activities of government agencies and enterprises.

(3) Financial statements should demonstrate the accountability of a government for the financial affairs and resources entrusted to it.

(i) Financial statements should provide information useful in evaluating the government's performance in the management of financial affairs and resources including a comparison of the actual results against the fiscal plan and prior period results.

(ii) Financial statements should provide information useful in assessing whether financial resources were administered by the government in accordance with the limits established by the appropriate legislative authorities.

(4) Financial statements should account for the sources, allocation and use of the financial resources required by the government in the period.

(i) Financial statements should account for all government expenditures by nature and purpose.

(ii) Financial statements should account for all government revenues by source and type.

(iii) Financial statements should account for the extent to which revenues were sufficient to meet expenditures.

(iv) Financial statements should show how government financed its activities in the period and how it met its cash requirements.

(5) Financial statements should present information to display the state of government's finances.

(i) Financial statements should present information to show the government's financial condition including, as a minimum, its liabilities and financial assets.

(ii) Financial statements should provide information that is useful in evaluating the government's ability to finance its activities and to meet its liabilities and commitments.

Alberta was one of the first provinces to publish summary financial statements that encompass a large majority of the government's operations and entities. In the opinion of the Auditor General, the consolidated financial statements of the Province satisfy, in most material respects, the PSAAC objectives listed above. Moreover, the Province of Alberta has formally adopted these objectives by including them in the Treasury Department's Manual of Financial Administration.

4.3.22 In the interests of fair and consistent presentation, financial statements of Alberta's Provincial entities are prepared either in accordance with generally accepted accounting principles, or alternatively, in accordance with some other more appropriate basis of accounting. This recognizes that for some government entities, departures from generally accepted accounting principles can be unavoidable and even desirable. This is because accounting principles that are appropriate to profit oriented enterprises may be inappropriate to non-profit oriented enterprises.

4.3.23 This form of presentation has been adopted for all financial statements other than those of the Province of Alberta Consolidated and the General Revenue Fund where the exceptions to generally accepted accounting principles are so numerous and significant that it is considered appropriate to omit reference to generally accepted accounting principles. Nevertheless the notes to these financial statements headed "Significant Accounting Policies and Reporting Practices" explain the basis of accounting used.

The Audit Office exercises professional judgement in determining the suitability of employing accounting policies and practices at variance with generally accepted accounting principles. In all financial statements prepared as at March 31, 1984, or such other accounting periods ended within the year ended March 31, 1984, the disclosed departures from generally accepted accounting principles are considered by the Audit Office to be appropriate in the circumstances. However, the reader's attention is drawn to the recommendations contained in sub-section 2.5 of this report relating to certain accounting policies of general application.

4.3.24 The membership of PSAAC includes representatives from various levels of the federal and provincial governments, from legislative auditors and from private sector firms of chartered accountants. The Auditor General of Alberta has been a member of PSAAC since 1982, and is currently chairman of its Western Section (the section dealing with public sector auditing).

Audit Strategy

4.3.25 The Audit Office has developed an audit strategy that integrates its various auditing activities in a manner that reflects the relative importance of the Auditor General's reporting responsibilities.

The most important of these responsibilities derive from sections 18, 19 and 28 of the Auditor General Act, and are:

(i) to report on the annual financial statements of all departments, funds and Provincial agencies in accordance with generally accepted auditing standards, and

(ii) to report to management and, where appropriate, to the Legislative Assembly:

- observed instances of non-compliance with legislative authorities,
- situations where it is observed that public assets are inadequately accounted for or improperly safeguarded,
- instances where it is observed that accounting systems (including management control systems relating to economy, efficiency and effectiveness) are absent, inadequate or not being complied with, and
- situations where it is observed that accounting policies and reporting practices are inappropriate or inadequate.

4.3.26 Section 18 of the Act requires all financial statements to be audited every year. The work necessary to report on these statements in accordance with generally accepted auditing standards is considerable and consumes the majority of the Audit Office's resources each year.

Sections 19 and 28 of the Act, however, do not require the Audit Office to examine each year every area, circumstance or system that could reveal systems deficiencies, legislative non-compliance or inadequately safeguarded public assets. They only require the Auditor General to report these matters if they are observed and if the Auditor General considers them to be significant.

4.3.27 An audit in accordance with generally accepted auditing standards is designed primarily to attest to the fair presentation of financial statements. It is not designed to find the various irregularities reportable under section 19 and 28, though in practice some may come to the auditor's attention as a by-product of the work performed. The Auditor General believes, however, that a legislative expectation exists for the work of his Office to extend beyond seeking matters reportable under sections 19 and 28 only as a by-product of adhering to the minimum requirements of generally accepted auditing standards. For this reason, annual financial audits designed primarily to attest to the fair presentation of financial statements are augmented in the following manner:

— At the beginning of each audit, significant financial and administrative authorities that impact the entity's operations are identified. Then during the audit, all transactions examined as part of the financial audit are also examined to determine whether or not they comply with the identified authorities. Any observed instances of non-compliance with prevailing authorities can thus be reported to management and, where appropriate, to the Legislative Assembly.

— All significant financial control systems are subjected to preliminary evaluation procedures. This involves documenting the systems and reviewing their design and objectives to identify apparent strengths and weaknesses. Where the auditor wishes to rely on the key controls thus identified, they are compliance tested to determine whether or not they are working effectively. Where, however, the effective operation of these controls is not relied upon to support the audit opinion on the financial statements, the controls may be compliance tested every few years on a rotational basis. In addition, many less significant financial control systems are also subjected to preliminary evaluation procedures.

  It is generally acknowledged that an auditor engaged to report on financial statements has no responsibility to examine internal controls beyond what is needed to determine the nature, extent and timing of other auditing procedures. Hence, the scope of the Audit Office's activity as described above relating to financial systems exceeds the minimum requirements of generally accepted auditing standards. These augmentations, however, enable the Auditor General to report more extensively to management and, where appropriate, to the Legislative Assembly apparent weaknesses in financial control systems and instances of non-compliance with major financial controls.

— Management control systems are audited on a selective basis. The main purpose of auditing management control systems is to help management improve the systems it has to ensure that the objectives of the enterprise are achieved. This, however, should not be interpreted as auditing Government decisions and Cabinet policies; these are correctly beyond the scope of a legislative auditor's mandate.

  Each year, a number of management control systems are chosen for audit. The scope of the annual financial statement audits of the entities responsible for the chosen systems is then expanded as necessary. Integrating the work in this way allows this type of auditing to be performed within the traditional audit structure, and allows observed system weaknesses to be reported to management and, where appropriate, to the Legislative Assembly in the normal way.

4.3.28 The Audit Office has developed several unique auditing methodologies and techniques to facilitate the conduct of its work. This is because the extended systems auditing strategies outlined above often present unique auditing challenges particularly where, as is usually the

case, the audit entity makes extensive use of computers and complex data processing systems to maintain records and monitor the delivery of services and programs.

The controls in these systems, and the often huge volume of information contained in the files processed by the systems, represent major sources of audit evidence. Enormous benefits and opportunities are available to auditors with the training and tools necessary to tap these sources. For example, by using the computer as an audit tool, certain characteristics of many thousands of transactions can be checked in less time than it takes to check a few dozen transactions using traditional auditing methods.

4.3.29 To exploit these benefits and opportunities more fully, the Audit Office has developed a new Generalized Audit Software Package (GASP). An important feature of GASP is that it can be used effectively by auditors who have only modest training and experience with computers and electronic data processing. GASP is an audit tool that facilitates the auditor's examination and review of data files and systems. Furthermore, using interactive display terminals which access the Audit Office's own computer, each auditor can use GASP to prepare, verify and initiate computer runs to examine and process data, simulate and test controls, extract and evaluate samples, submit data to regression analysis techniques, and perform many other audit-related procedures.

GASP provides the auditor with powerful technical support through interactive dialogue at computer terminals. It allows the auditor to process data files from virtually any make and model of computer encountered, without leaving the terminal and usually without assistance from data processing personnel. This greatly enhances the efficiency and effectiveness of the audit and, because GASP runs on the Audit Office's own computer, reduces significantly the risk of outside interference in the audit process.

4.3.30 A more specialized computer assisted auditing technique is used to obtain ongoing audit assurance that the Province's central expenditure processing system (A.F.I.S.) is operating satisfactorily. The Audit Office has developed a system, operating on its own computer, which simulates major elements of A.F.I.S.. By comparing daily the simulated results with the output of A.F.I.S., assurance (or otherwise) is obtained that A.F.I.S. and the controls it contains are operating satisfactorily, and that its output is reliable.

4.3.31 Many of the techniques adopted by the Audit Office emphasize the prevention of errors and irregularities, rather than attempting to be purely detective. This is because the Auditor General believes that diagnosing and eliminating weaknesses in accounting and management control systems will minimize the potential for loss and waste of public monies and resources.

It is recognized, however, that no system is infallible. Accordingly, efforts are made to develop audit methodologies that facilitate the early detection of any major errors or irregularities if they occur. For example, it is believed that normal post-auditing methods are unacceptable for major departmental expenditure systems because any errors and irregularities may not be found and corrected until a considerable time after they occur. In view of the substantial amounts of funds that are processed by these systems, uncorrected irregularities could very quickly reach serious proportions.

It is to counter problems of this kind that the Audit Office has developed a methodology which it has designated "concurrent auditing". Concurrent auditing involves the subjection to audit examination of sample transactions on an ongoing and "shortly after the fact" basis. It thereby optimizes the opportunity for early detection of errors and irregularities in transactions and their related processing systems which otherwise may not be discovered until well after any resultant losses have occurred.

4.4 ORGANIZATION OF THE AUDIT OFFICE

4.4.1 The Audit Office is administered by the Office Management Committee, the members of which are the Auditor General and four Assistant Auditors General. This Committee sets, and monitors the achievement of, the policies designed to discharge the Auditor General's legislatively prescribed responsibilities.

The Office has two main operating divisions. These are the Audit Division and the Administration Division.

The Audit Division

4.4.2 The Audit Division is administered by three Assistant Auditors General, each of whom is responsible for approximately one third of the audits performed by the Audit Office.

Audit staff below the level of Assistant Auditor General are divided into five audit groups. Each group comprises three Audit Principals and varying numbers of Audit Managers, Supervisors, Seniors and Assistants. Each group also has an EDP audit advisor trained in advanced computer auditing techniques. Using the resources within his group, each Audit Principal is responsible to one or more Assistant Auditors General for planning, performing and reviewing the various audits assigned to him. This responsibility structure is designed to deploy the Audit Office's resources in an economic and efficient manner.

The Administration Division

4.4.3 The Administration Division is administered by an Assistant Auditor General and provides a variety of administrative services to the rest of the Audit Office. Its most important function, however, is monitoring the implementation of the policies and directives issued from time to time by the Office Management Committee.

The Division is responsible for the selection and hiring of staff, the personnel function, the time recording system, and co-ordinating the budgetary and accounting functions. It exercises quality control over all audit reports, financial statements, management letters and other output of the Audit Office. This includes monitoring for adherence with established policies and standards and maintaining the Audit Office Staff Manual.

The professional practices and professional development functions are also performed by the Administration Division. These include establishing practice standards and policies, maintaining the Office library and developing and presenting courses on audit-related subjects.

4.4.4 During the past two years the work load of the Audit Office has continued to grow, though at a slower pace than previously. Among the effects of slower economic growth is that staff turnover has been slower than experienced in past years. This reduced rate of staff turnover has provided greater stability and an accumulation of knowledge and experience which, in turn, has resulted in increased productivity. This was one reason why the Audit Office felt able to reduce voluntarily its approved staff positions by four for the 1984-85 fiscal year in line with the Government's restraint policy.

4.4.5 The Audit Office has continued with its policy of utilizing the services of private sector chartered accountants. These firms act as agents of the Auditor General under the provisions of section 10 of the Auditor General Act. The contributions of agents in supplementing the staff resources of the Audit Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1984 were as follows:

Arthur Andersen & Co.
Bailey Foulkes-Jones Lundell
Bevan, Hagen, Halbert and Ginet
Campbell Sharp
Carpenter & Company
Clarkson Gordon
Collins Barrow

Coopers & Lybrand
Deloitte Haskins & Sells
Hudson & Company
Johnston, Morrison, Hunter & Co.
MacKay & Partners
Matthew Craig Watts & Davies
Mills Macleod Unrau
Peat, Marwick, Mitchell & Co.
Price Waterhouse
Thorne Riddell
Touche Ross & Co.
Young, Parkyn, McNab & Co.
Watkinson, Hanhart, Duda, Dorchak

4.4.6 The audited financial statements of the Office of the Auditor General are reproduced in section 26 of Volume II of the Public Accounts 1983-84 in accordance with section 30(4) of the Auditor General Act.

5 TABULATION OF RECOMMENDATIONS

5.1 Recommendations appearing throughout this report are reproduced in this section. Each recommendation is serially numbered and cross referenced to the section in which it appears so that the reader may readily determine the context in which the recommendation is made. Where a recommendation was contained in a previous year's report, the fiscal year covered by the report and the previous recommendation number is shown above and to the right of the recommendation.

1. (Section 2.3.1)

It is recommended that the Department of Hospitals and Medical Care, the Foothills Provincial General Hospital and the Provincial Cancer Hospitals comply fully with authorities and approved accounting policies to ensure that goods and services are recorded as expenditures in the fiscal years in which they are received and that funding is claimed only in compliance with the provisions of relevant authorities.

2. (Section 2.3.1)

It is recommended that the Department of Hospitals and Medical Care establish consultative arrangements – including liaison with the Treasury Department – to help hospitals resolve problems in connection with funding commitments that lapse at fiscal year-ends.

3. (Section 2.3.2) *(1981-82: No. 32)*

It is recommended that departments and Provincial agencies that use the Province's central salary payroll system ensure that requisite approvals are obtained for all payments, as required by chapter 7 of the Treasury Department's Manual of Financial Administration.

4. (Section 2.3.4)

It is recommended that the Department of Energy and Natural Resources modify the part of its Mineral Tax System used to calculate freehold mineral rights tax to ensure that tax is calculated and billed annually in accordance with the provisions of Alberta Regulation 12/84.

5. (Section 2.3.5)

It is recommended that the Department of Hospitals and Medical Care exercise more care in future to ensure that expenditures are charged against funds appropriated for the fiscal year in which the expenditures were incurred.

6. (Section 2.3.10)

It is recommended that:

(a) in order to comply with section 19(1)(b) of the Financial Administration Act, all proceeds collected from lottery operations be deposited in the General Revenue Fund; and that all payments of costs of lottery operations and all payments to be regarded as distribution of the net profits from those operations be made pursuant to the authority of an appropriation of the legislature, or,

(b) if the above recommendation is regarded as impractical, consideration be given to revising the Interprovincial Lottery Act to permit the collecting, handling and distributing of lottery proceeds through a statutory fund or provincial agency or by some other method that would constitute an exception within section 19(1)(b) of the Financial Administration Act.

It is further recommended that consideration be given to revising the Interprovincial Lottery Act to indicate that this statute is based on the authority of section 190 of the Criminal Code of Canada.

7. (Section 2.3.11) *(1982-83: No. 12)*

It is recommended that as soon as practicable, action be taken to resolve the various problems relating to non-compliance with the legislative authorities pertaining to the establishment and administration of the Metis Population Betterment Trust Account.

8. (Section 2.3.12)

It is recommended that the Department of Public Works, Supply and Services take steps to ensure that, in future, it complies with section 12(1) of the Public Works Act when administering public works contracts.

9. (Section 2.3.13)

It is recommended that the Northern Alberta Institute of Technology take steps to curtail the ongoing loss of public money arising from the financing arrangement entered into with the Institute's bankers to finance the acquisition of Patricia Campus.

10. (Section 2.3.13)

It is recommended that, in light of apparent uncertainties in the legislation governing the type of borrowings by technical institutes that require Lieutenant Governor in Council approval, consideration be given to seeking legislation amendments to clarify the wishes of the Legislature.

11. (Section 2.4.1)

It is recommended that Alberta Hospital Ponoka immediately develop and implement appropriate accounting controls and financial reporting systems.

12. (Section 2.4.2) *(1979-80: No. 45)*

It is recommended that the Alberta Research Council continue with the action necessary to eliminate the remaining financial control problems in its fixed assets, research projects, project contracts, inventories and expenditure systems.

13. (Section 2.4.3) *(1981-82: No. 20)*

It is recommended that the Department of Energy and Natural Resources implement the Department's newly developed system to record, monitor and control royalty revenues from natural gas and natural gas by-products. The Department should also continue to bring up to date the verification of its existing data.

14. (Section 2.4.5)

It is recommended that the Department of Social Services and Community Health issue standards and guidelines governing the preparation and submission to the Department of budgets and audited financial statements for vocational training and rehabilitation agencies. The Department should also have adequate systems for monitoring compliance with such standards and guidelines, and for ensuring that grants paid to these agencies are in accordance with established criteria.

15. (Section 2.4.5)

It is recommended that the Department of Social Services and Community Health proceed with its efforts to resolve the uncertainties concerning the operations and legislative status of the Provincial Laboratory of Public Health. Pending resolution of the uncertainties, the Department should consider formally accepting responsibility for the Laboratory's operations.

16. (Section 2.4.5)

It is recommended that the Department of Social Services and Community Health establish procedures and obtain the information it needs to ensure that it pays the Alberta Dental Association only for dental services that are valid, eligible and reasonable. In addition, future contracts negotiated with the Association should define more precisely the administrative costs that are eligible for reimbursement, and the manner in which monies advanced to the Association shall be managed and accounted for.

17. (Section 2.4.5)

It is recommended that the Department of Social Services and Community Health review and where necessary improve the Child Welfare Payment and Information System to ensure that:

- ***it meets the Department's information needs, including providing explanations for variances between budgeted and actual costs,***
- ***case-workers, administrative staff and case files comply with the requirements of the Department's Child Welfare Program Manual, and***

— *that payments for goods and services supplied are properly authorized, documented and not duplicated.*

18. (Section 2.4.7) *(1981-82: No. 40)*

It is recommended that the Department of Transportation continue with efforts to improve its financial controls and accounting systems.

19. (Section 2.4.9)

It is recommended that the Department of Hospitals and Medical Care establish procedures to ensure that the Finance and Administration Division of the Department is actively involved in all revisions or additions to information processing systems of the Health Care Insurance Fund that have accounting or financial implications. In addition, procedures should be established requiring:

— *regular reviews of the Fund's reports and records to monitor financial transactions and accounting balances so that unusual situations and fluctuations can be identified without delay,*

— *production each month of receivable trial balances and prompt reconciliation of such trial balances to the related general ledger accounts, and*

— *retention of sufficient documentation to support reconciliations, transactions and adjusting entries related to the billing, collection, control and recording of health care premium revenue.*

20. (Section 2.4.9)

It is recommended that the Department of Hospitals and Medical Care take action to ensure that the computerized systems of the Health Care Insurance Fund are operated, controlled and managed by properly trained and knowledgeable staff and that systems changes are made only after all implications have been considered. In particular, the Systems and Data Processing Branch should ensure that:

— *documentation is available to provide staff with comprehensive and current information on the operating procedures and features of all computerized systems,*

— *all divisions of the Department that have responsibilities relating to the Health Care Insurance Fund receive prior notification of proposed system changes. This would enable concerns and implications that may not be readily apparent to staff responsible for making the changes to be raised and considered before the changes are made,*

— *all system changes are fully documented.*

In addition, there should be sufficient co-ordination between the Systems and Data Processing Branch and the users of the various systems to ensure that:

— *staff changes are made in a controlled and systematic manner so that, wherever possible, duties and responsibilities are assigned only to staff with sufficient training and competence to discharge them,*

— *conversion procedures and details of control totals and reconciliations are fully documented and retained.*

21. (Section 2.4.11) *(1982-83: No. 10)*

It is recommended that, where appropriate, Provincial agencies be granted legislative authority to allow them the option of utilizing the services of the Consolidated Cash Investment Trust Fund to maximize investment yield while maintaining liquidity of funds surplus to immediate needs.

22. (Section 2.4.15) *(1979-80: No. 44)*

It is recommended that the Treasury Department continue to eliminate the remaining accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.

23. (Section 2.4.17) *(1982-83: No. 19)*

It is recommended that The Workers' Compensation Board continue with its efforts to establish a formal policy governing the period over which deficits are to be recovered and the way in which class deficits should be recovered during that period.

24. (Section 2.4.17)

It is recommended that The Workers' Compensation Board continue with its efforts to eliminate the weaknesses identified during past audits in its financial control and accounting systems.

25. (Section 2.5.2)

It is recommended that in future, the Department of Agriculture take care to ensure that financial information included in its annual reports tabled in the Legislative Assembly is accurate and consistent with information published in the Province's public accounts. The Audit Office is willing to review financial information contained in Departmental annual reports before such reports are printed.

26. (Section 2.5.3)

It is recommended that the Department of Manpower ensure that year-end accruals and Departmental expenditures are reported accurately in the Public Accounts of the Province.

27. (Section 2.5.4) *(1978-79: No. 34)*

It is recommended that consideration again be given to reflecting the unrecorded liability arising from the various pension plans administered and guaranteed by the Province as a liability in the financial statements of the Province. The accounting method used to implement this should incorporate charging all pension costs to the entities and programs that benefit therefrom. Furthermore, if the Government decides to restrict any increases in the Province's unfunded pension liability, consideration should be given to paying into the Pension Fund each year amounts equal to interest calculated on the unfunded amount. Providing that the combined employer and employee contributions approximate the normal pension costs incurred, the payment of such interest will prevent the further growth of the unfunded liability.

28. (Section 2.5.4)

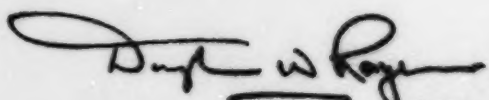
It is recommended that consideration be given to having interim valuations of the Province's pension obligations prepared by independent actuaries at fiscal year ends when full actuarial valuations are not prepared.

29. (Section 2.5.4) *(1978-79: No. 34)*

It is recommended that the Treasury Department and the Board of Administrators of the Teachers' Retirement Fund employ common economic assumptions and actuarial cost methods when valuing the pension plans administered by the Province of Alberta and the Teachers' Retirement Fund. Furthermore, similar action to that taken in response to recommendations No. 27 and 28 above, should also be considered to address the unfunded portions of the Teachers' Retirement Fund Pension Plan.

30. (Section 2.5.5) *(1981-82: No. 47)*

It is recommended that the Treasury Department facilitate action involving all concerned to determine the feasibility, including ways and means, of more timely financial reporting to the Legislative Assembly. Such action should include seeking and addressing the requirements of the Select Standing Committee on Public Accounts for more timely reports on the Province's financial affairs.



F.C.A.
Auditor General

Edmonton, Alberta
March 4, 1985

APPENDIX I

AUDITOR GENERAL ACT

CHAPTER A-49

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1 In this Act,

(a) "Auditor General" means the Auditor General of Alberta;

(b) "Crown-controlled organization" means

(i) a corporation that is incorporated by or under an Act of the Legislature, other than a local or private Act, one or more but less than a majority of whose members or directors are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof, or

(ii) an unincorporated board, commission, council or other body that is not a department or part of a department, one or more but less than a majority of whose members are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof,

that is responsible for the administration of public money or assets owned by the Crown, and includes a corporation, more than 50% but less than 100% of whose issued voting shares are owned by the Crown or held in trust for the Crown or are partly owned by the Crown and partly held in trust for the Crown;

(c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the Legislative Assembly Office,

(ii) the Ombudsman and the staff of the Office of the Ombudsman, and

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer;

(d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;

(e) "public money" means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;

(f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;

(g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;

(h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office

5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office

6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so

appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

RSA 1980 cA-49 s6

Salary and benefits

7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

RSA 1980 cA-49 s7

Acting Auditor General

8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

RSA 1980 cA-49 s8

Office of the Auditor General

9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendations of the Auditor General, the Select Standing Committee may order that

(a) any regulation, order or directive made under the *Financial Administration Act*, or

(b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) The *Regulations Act* does not apply to orders made under subsection (2).

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9;1983 cL-10.1 s57

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

12 The Auditor General

(a) is the auditor of every department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12

Financing of operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the pub-

lic interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to information

15(1) The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explan-

ations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

1977 c56 s15

Right to information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

1977 c56 s16

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year,

(b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

1977 c56 s18

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) The annual report shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

1977 c56 s19

Special reports

20(1) The Auditor General may prepare a special report to the

Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend

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the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice re organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30

APPENDIX II

REPORT TO THE PUBLIC ACCOUNTS COMMITTEE

OF THE LEGISLATURE OF ALBERTA

REGARDING THE

RECOMMENDATIONS OF

THE REPORT OF THE AUDITOR GENERAL OF MARCH 31, 1983

Submitted by the
Provincial Treasurer
on behalf on the
Executive Council
October 1984

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Recommendation

1. *CONSUMER AND CORPORATE AFFAIRS – ADMINISTRATION OF TRUST FUNDS (Section 2.2.2)*

   It is recommended that the Department of Consumer and Corporate Affairs either:

   — *comply with the Orderly Payment of Debts Provisions of the federal Bankruptcy Act when paying monies from the Orderly Payment of Debts Trust, and*

   — *comply with the Debtors' Assistance Act when paying monies from the Debtors' Assistance Trust,*

   or seek legislative amendments to identify the circumstances in which such monies may be transferred from the trusts to the General Revenue Fund. Furthermore, action should be taken to resolve the legal uncertainties relating to the administration of funds held by the Orderly Payment of Debts Trust.

Comments

The Department of Consumer and Corporate Affairs has forwarded a request to the Acting Superintendent of Bankruptcy, Consumer and Corporate Affairs Canada that changes be made to the regulations for Orderly Payment of Debt applicable to Alberta. The changes would include directions for handling unclaimed or undistributed funds and an amendment to the regulations providing for the disposition of accumulated interest.

When Consumer and Corporate Affairs Canada has made changes to the Orderly Payment of Debt regulations, the Department of Consumer and Corporate Affairs will make the same changes in the provincial regulations governing the Debtors' Assistance Board trust funds.

Recommendation

2. *SOCIAL SERVICES AND COMMUNITY HEALTH – GRANTS TO HEALTH UNITS (Section 2.2.6)*

   It is recommended that the Department of Social Services and Community Health adhere to the provisions of section 17 of the Health Unit Act in its administration of operating grants to local health units. Furthermore, for accounting purposes, the Department should treat repayments of grant monies by health units as expenditure refunds for the fiscal years to which the original grant related.

Comments

The new Public Health Act, assented to on May 31, 1984, amended section 17(3) of the Health Unit Act so boards may, subject to the regulations, retain at the end of a fiscal year, any unexpended balance of the grants.

Procedures have been implemented to ensure that any repayments of grant monies, in respect of prior fiscal years will be treated as refunds of prior years' expenditure.

Recommendation

3. *SOCIAL SERVICES AND COMMUNITY HEALTH – OVERPAYMENTS OF SOCIAL ALLOWANCE*
   (Section 2.2.8)
   (1981-82: No. 6)

   It is recommended that the Department of Social Services and Community Health continue to strengthen its procedures to minimize the incidence of overpayments to social allowance recipients. Areas requiring particular attention are:

   — *procedures to ensure that information contained in social allowance recipients' files is complete and up-to-date, and*

   — *procedures to ensure prompt preparation and processing of data decision sheets.*

Comments

The computer system designed to record comprehensive client data on a timely basis is now fully operational. All payments, except short term and emergency assistance, are validated by this system prior to processing.

The system will facilitate the maintenance of complete and up-to-date recipient files, and ensure prompt preparation and processing of data decision sheet's. A more detailed verification of client records will also be carried out to reduce the incidence of overpayments.

Recommendation

4. *TRANSPORTATION – AUDITORS' CERTIFICATES FOR GRANT EXPENDITURES (Section 2.2.9)*

It is recommended that the Department of Transportation obtain assurance that grants disbursed under the Urban Transportation Financial Assistance Program are used for the purposes for which they were given. This could be achieved by obtaining opinions from the recipients' auditors that the financial information is presented fairly in accordance with the basis of accounting described in the agreement and whether the grants were expended in compliance with the grant agreements and the Department's administrative procedures manual.

Comments

The Department will review and upgrade control practices where applicable during the final year of the current programme. The control standards will be reviewed in total when a new financial assistance programme is announced.

Recommendation

5. *AUDITORS' CERTIFICATES FOR GRANT EXPENDITURES (Section 2.2.9)*

It is recommended that when recipients of conditional grants are required to provide assurance to the Province in the form of an audited report that the grants they have received were spent in compliance with the conditions of the grant agreement, the auditors examination and report should be in accordance with section 5815 and, where necessary, section 5805 of the Canadian Institute of Chartered Accountants Handbook.

Comments

The Government agrees with this recommendation. The Treasury Department's Manual of Financial Administration will be amended to stipulate that where audited reports are necessary, grant agreements should require auditors to report in accordance with the above sections, subject to standards for auditing compliance with financial and administrative authority recommended by the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants.

Recommendation

6. *TREASURY – EMPLOYER PENSION CONTRIBUTIONS (Section 2.2.10) (1981-82: No. 9)*

It is recommended that if compliance with existing provisions of the Pension Plan Acts and Regulations as they relate to employers' contributions is not considered desirable, Treasury Department seek immediate amendments to those Acts or Regulations to provide for the cessation of employer contributions when employee contributions cease.

Comments

The Public Service Pension legislation is currently in the process of being redrafted. The proposed legislation provides for the cessation of employer contributions when employee contributions cease.

Recommendation

7. *HEALTH CARE INSURANCE FUND – UNAUTHORIZED TRANSACTIONS*
(Section 2.2.12)
(1981-82: No. 15)

It is recommended that an arrangement be finalized between The Workers' Compensation Board and the Minister of Hospitals and Medical Care, as provided by section 82.1 of the Workers' Compensation Act, relating to the payment by and subsequent reimbursement to the Health Care Insurance Fund of claims for medical aid provided to workers coming under the Workers' Compensation Act.

Comments

A Letter of Understanding between the department and the Workers' Compensation Board in connection with hospital charges was exchanged March 19, 1984. Negotiations in connection with the handling of medical claims and related charges are continuing and it is anticipated a formal arrangement will be finalized in the next few months.

Recommendation

8. *PAYMENT GUIDELINES FOR CONDITIONAL GRANTS*
(Section 2.2.13)

It is recommended that the Treasury Board issue guidelines covering the circumstances in which conditional grants may be paid to recipients before the recipients need to spend the money, together with the disposition of any interest earned on such monies.

Comments

Because of the diversity of grant programmes, it is believed that the uncertainties and inconsistencies observed by the Auditor General can best be avoided by requiring Deputy Minister approval of an advance payment of a grant and by adopting recommendation No. 9. The Treasury Department's Manual of Financial Administration will be amended accordingly.

Recommendation

9. *PAYMENT GUIDELINES FOR CONDITIONAL GRANTS*
(Section 2.2.13)

It is recommended that departments and Provincial agencies that disburse conditional grants ensure that the grant agreements specify if and in what circumstances grants may be paid to recipients before the recipients need to spend the money. Where prior payment is permitted, the grant agreement should stipulate how the money should be held and the disposition of any interest earned thereon. Chapter 6 of the Treasury Department's Manual of Financial Administration should be amended to reflect these requirements.

Comments

The Treasury Department's Manual of Financial Administration will be amended to reflect these requirements.

Recommendation

10. CONSOLIDATED CASH INVESTMENT FUND – LEGISLATIVE AUTHORITY FOR PROVINCIAL AGENCIES
(Section 2.2.14)
(1979-80: No. 6)

It is recommended that, where appropriate, Provincial agencies be granted legislative authority to allow them the option of utilizing the services of the Consolidated Cash Investment Trust Fund to maximize investment yield while maintaining liquidity of funds surplus to immediate needs.

Comments

The Government concurs with the recommendation. Where appropriate, Provincial agencies will be granted legislative authority to allow them the option of utilizing the services of the Consolidated Cash Investment Trust Fund to maximize investment yield while maintaining liquidity of funds surplus to immediate needs.

Recommendation

11. LAND PURCHASES FUND
(Section 2.2.15)
(1981-82: No. 16)

It is recommended that the Treasury Department seek amendments to the Government Land Purchases Act that will remove any doubt as to whether the Land Purchase Fund has legislative authority to borrow other than by advances from the General Revenue Fund and to mortgage land held by the Fund.

Comments

The Government Land Purchases Act has been amended to provide clearly the authority to meet the purchase price of land acquisition in whole or in part by:

a) the assumption of money obligations to vendors, and

b) the assumption of existing mortgages or other obligations.

Recommendation

12. MUNICIPAL AFFAIRS – NON-COMPLIANCE WITH METIS BETTERMENT ACT
(Section 2.2.16)

It is recommended that the Minister of Municipal Affairs take action to resolve the long-standing problems relating to non-compliance with the provisions of The Metis Betterment Act (and regulations issued pursuant thereto) governing the appointment of members to local boards of settlement associations and payment of honoraria to board members.

Comments

The Report of the MacEwan Joint Committee to Review the Metis Betterment Act has been completed and the Government expects the matters raised by the Auditor General will be dealt with following review of the report. Given the complex nature of matters pertaining to the Metis Betterment Act, the Government feels it would be unwise to amend the Act on a piecemeal basis prior to that time.

Recommendation

13. DEPARTMENTS OF ENVIRONMENT AND TRANSPORTATION – ADMINISTRATION OF PUBLIC WORKS CONTRACTS
(Section 2.2.17)

It is recommended that the Departments of the Environment and Transportation take steps to ensure that, in future, they comply with section 12(1) of the Public Works Act when administering public works contracts.

Comments

Both departments have taken steps to ensure compliance with section 12(1) of the Public Works Act.

Recommendation

14. PUBLIC COLLEGES – INTERNAL CONTROLS
(Section 2.2.19)
(1979-80: No. 23)

It is recommended that the Public Colleges ensure that adequate time and resources are directed to the establishment and maintenance of accounting records and a comprehensive system of internal control and that management continue to monitor areas where incompatible duties are not properly segregated.

Comments

Advanced Education and the Public Colleges agree on the importance of adequate financial control and procedures. Public Colleges are continually making their best efforts to ensure that adequate controls are in place and that approved procedures are followed. A review of controls has been done at the two Colleges cited and appropriate changes in procedures are being instituted.

Recommendation

15. FINANCIAL CONTROL
(Section 2.2.19)

It is recommended that management of all departments, funds and Provincial agencies exercise care when reducing the resources allocated to financial administration, to ensure that adequate financial control is maintained in order that the vulnerability of public funds to theft and misuse is not increased, and that the accuracy of financial information for both management and the Legislative Assembly is not jeopardized.

Comments

Departments, funds and Provincial agencies will be advised to assess the risks associated with reducing the resources allocated to financial administration.

Recommendation

16. HOSPITALS AND MEDICAL CARE – GRANTS TO HOSPITALS
(Section 2.3.1)
(1981-82: No. 22)

It is recommended that the Department of Hospitals and Medical Care strengthen its procedures to avoid irregularities when processing grants to hospitals.

Comments

During 1983-84, changes in controls together with a reinforcement of existing controls strengthened the department's procedures for payment of operating grants to hospitals. A committee has been established to further review the payment procedures and the related controls to determine whether additional or improved controls are required.

Recommendation

17. ELECTRONIC DATA PROCESSING
(Section 2.3.3)
(1981-82: No. 24)

It is recommended that senior management increase its involvement in the preparation and implementation of EDP development plans to determine whether:

- *the plans describe in appropriate detail the proposed development and implementation activities,*
- *evidence is available to support the rationale behind the plans, and*
- *intended benefits are achieved.*

Comments

The Government agrees with the recommendation that senior management in departments should increase their involvement in the preparation and implementation of EDP development plans. The need for this involvement was emphasized by the Deputy Provincial Treasurer in the guidelines issued to departments for the preparation of the 1985-86 EDP plans.

Recommendation

18. SALARY PAYROLL SYSTEM – ACCURACY OF INFORMATION
(Section 2.3.7)
(1981-82: No. 32)

It is recommended that departments and Provincial agencies that use the central salary payroll system intensify their efforts to improve the accuracy and completeness of the records they maintain to support the information processed by the system. This should include ensuring that the requisite approvals are obtained for all payments, and deductions therefrom, and that records and procedures comply with Chapter 7 of the Treasury Department's Manual of Financial Administration.

Comments

The Office of the Controller will conduct selected reviews of payroll records to identify problem areas and encourage departments to take corrective action.

Recommendation

19. WORKERS' COMPENSATION BOARD – DEFICITS POLICY
(Section 2.3.9)

It is recommended that The Workers' Compensation Board establish a formal policy governing the period over which deficits are to be recovered and the way in which class deficits should be recovered during that period.

Comments

The Board agrees there should be a formal policy on the manner and timing for recovery of realized deficits and distribution of surpluses. This policy is currently being formulated as one major aspect of an overall financial review project being pursued within the Board. It is anticipated the review will be completed by the 1984 year-end.

Recommendation

20. FIXED ASSETS – CHARGING RELATED COSTS
(Section 2.4.1)
(1981-82: No. 34)

It is recommended that consideration be given to implementing accounting policies to ensure that all appropriate fixed asset-related costs are charged to the programs, funds and Provincial agencies that derive the benefit from their use. It is suggested that achieving this objective could be facilitated by the use of a revolving fund, or similar vehicle, which could acquire and hold fixed assets having a material effect on future Government operations, and allocate the appropriate costs to programs, funds and Provincial agencies on a usage basis. Moreover, consideration should be given to requiring budgetary control over fixed assets acquired by revolving funds to be similar to that in effect for departmental programs.

Comments

Pending a complete examination of the potential costs involved no action has been taken on the report of a task force that was assigned to study this recommendation. Preliminary estimates of the cost of implementing a charging system were relatively high and associated benefits are not readily quantifiable. Thus, in a period of expenditure restraint, it is not evident that the additional cost, to improve accounting disclosure, is warranted and action on the task force report has been deferred.

Recommendation

21. CENTRALLY PROVIDED SERVICES
(Section 2.4.1)
(1981-82: No. 35)

It is recommended that in order to achieve more comprehensive and meaningful reporting of program delivery costs, consideration be given, in the longer term, to including maintenance, utilities, rents and other centrally provided services of a significant nature, in the reported costs of individual programs and agencies.

Comments

Any action on this recommendation would follow logically on decisions made in respect of recommendation No. 20.

Recommendation

22. ALBERTA HOUSING CORPORATION – LAND INVENTORY
(Section 2.4.3)

It is recommended that the Alberta Housing Corporation:

- ***discontinue its accounting policy of capitalizing interest on land inventory.***
- ***establish procedures to prevent the recorded cost of land inventory exceeding the market value.***
- ***review regularly the status of its development projects to ensure that the projects' capitalized costs do not exceed the anticipated sale value.***
- ***consider disclosing separately in its financial statements, land inventory designated short-term development land and land inventory designated long-term development land.***
- ***consider using the Province's Land Purchase Fund for acquiring and holding long-term development land.***

Comments

With respect to Land Inventory:

- **Effective April 1, 1983, the Corporation discontinued the policy of capitalizing interest.**
- **The Corporation continues to review its procedures in regards to capitalizing costs. The key issue of added costs was the capitalization of interest and it is not anticipated that other additional costs will have a significant detrimental effect.**
- **During the 1983/84 year, the Corporation has attempted to improve its review of development projects with the view of analyzing comparisons between recorded costs and market values.**
- **It is anticipated that the financial statement issue will be addressed for the 1984/85 year. The Corporation will attempt to accumulate comparative data during the 1983/84 year-end which will be available for the ensuing year.**
- **The Government does not consider the use of the Land Purchase Fund to be an appropriate vehicle for acquiring and holding long term development land for housing. If the Fund were used the eventual cost of the land to the Corporation would be the purchase price plus the accumulated interest, thus this treatment would merely delay the recognition by the Corporation of the cost of the land and any losses attributed to it.**

Recommendation

23. CAPITAL PROJECTS – ESTIMATES
(Section 2.4.4)

It is recommended that financial control and reporting systems used by departments, funds and Provincial agencies to administer major capital construction projects be designed to provide, as a minimum, the following information to senior management on a prompt and frequent basis for each project and its components:

- *Comparisons of the originally approved project budget to the most recently approved project budget, with details of increases and decreases resulting from inaccurate estimating, project scope revisions, price escalation or other relevant factors.*
- *Comparisons of total contract amounts to the corresponding portion of the most recently approved project budget;*
- *Comparisons of the latest cost estimates for project components, that have not yet been committed to contract, to the corresponding portion of the most recently approved budget;*
- *Analyses and comparisons of the following ratios and an explanation of their effect on the approved project budget:*
  - *(a) costs incurred to date as a percentage of the total contract amounts;*
  - *(b) work performed as a percentage of the latest revised quantity estimates for the total work required;*
- *Analyses of the impact of any significant event, such as a change in the scope of the project or a delay in the completion of a component of the project, on the estimated cost to completion for both committed and uncommitted project components.*

Comments

The Government agrees with the recommendation. The Controller has advised senior financial officers to review the financial control and reporting systems used to administer capital construction costs.

Recommendation

24. CAPITAL PROJECTS – REVIEW BY QUALIFIED PERSONNEL
(Section 2.4.4)

It is recommended that, in order to reduce the risk of decisions being made on the basis of inadequate or misleading information, financial information flowing from each major capital construction project as well as the methods and assumptions used in preparing cost and quantity estimates, upon which senior management relies when making policy decisions and when evaluating project progress, be regularly reviewed by persons with financial and technical expertise who are independent of the project manager.

Comments

The Government agrees with the need for regular review of project progress by persons with financial and technical expertise who are independent of the project managers. The Controller has advised senior financial officers of the need for such reviews.

Recommendation

25. CAPITAL PROJECTS – ESTIMATES
(Section 2.4.4)
(1981-82: No. 46)

It is recommended that, in the interests of improved accountability to the Legislative Assembly and more effective budgetary control, appropriation bills be supported by more extensive financial information on major capital construction projects. This information should include, inter alia, details of the original estimated costs and scope of each project, cost and scope revisions, costs incurred to the end of the previous fiscal year, current year cost forecast, amounts to be appropriated for costs to be incurred in the next fiscal year, estimated future year costs to completion, estimated impact of monetary inflation on past, current and future costs in relation to the original cost forecast, and the total estimated cost for each project. (This recommendation should not be interpreted as suggesting that the Legislative Assembly approve other than the next fiscal year's expenditures on these projects).

Comments

The Government is not convinced that providing more extensive financial information on major capital construction projects will increase the Legislative Assembly's control over capital spending. As stated in the response to 1982 recommendation number 46, such information can be elicited from the minister responsible by means of questions in the Legislative Assembly.

Recommendation

26. UNFUNDED PENSION PLAN LIABILITIES
(Section 2.4.5)
(1981-82: No. 36)

It is recommended that:

- *the Treasury Department and the Board of Administrators of the Teachers' Retirement Fund agree upon common economic assumptions and methods that can be used when valuing the pension plans administered by the Province of Alberta and the Teachers' Retirement Fund.*
- *in the light of the recent proposals issued by the FASB and general accounting trends on pension accounting, consideration again be given to reflecting the unrecorded liability arising from the various pension plans as a liability in the financial statements of the General Revenue Fund and the Province.*

— *consideration be given to all available ways and means of restricting the growth in the net pension liability.*

Comments

— The Board of Administrators of the Teachers' Retirement Fund has agreed to obtain an actuarial valuation of the retirement plan as at March 31, 1984, consistent with the effective date of actuarial valuations now being prepared for the six pension plans administered by the Government. Economic assumptions, however, have been established by the Board of Administrators independently of the Government.

— It is understood that the U.S. Financial Accounting Standards Board proposals do not represent general practise in Canada and certainly not the general practises of Governments in Canada, and that seven of the 'big eight' accounting firms in the U.S.A. are strongly opposed to the proposal.

Accordingly it appears that nothing has changed to influence a change of the Government's current practise of disclosing the liability by way of a footnote to the financial statement.

— Steps have been taken to slow the growth of the estimated unfunded liability by introducing legislation to bring the employer and employee contributions of the larger pension plans with a significant current cost – contribution gap, up to current cost over a period of time.

As part of the actuarial valuation exercise now underway, a study will be made of the sensitivity of the current cost and the liability to other features of the pension plans with a view to recommending future action that may be taken.

Recommendation

27. PROGRAM CHARGES OFFSET AGAINST REVENUE
(Section 2.4.6)
(1981-82: No. 37)

It is recommended that, in the interest of improved financial reporting and accountability to the Legislative Assembly, all costs of the Exploratory Drilling Incentive and Geophysical Incentive programs be budgeted as expenditures in the annual Estimates and disclosed as expenditures in the Public Accounts of the Province. This will involve the aggregation of credits allowed and grants paid under these programs. It may also involve an amendment to Legislation.

Comments

Consistent with the Auditor General's presentation in his report "to display some of the financial information in an alternative and simplified manner" and thus to improve financial reporting to the Legislative Assembly, legislation has been passed to require that all energy incentive programme costs, whether applied as credits or paid, will be applied to reduce non-renewable resources revenue. This will discontinue the anomaly of applying part of those costs to reduce revenue and charging part to an appropriation and reflects the Government's agreement with the opinion expressed by the Auditor General in his report that "these costs can be said to relate to the generation of that revenue".

Recommendation

28. PROGRAM CHARGES OFFSET AGAINST REVENUE
(Section 2.4.6)
(1981-82: No. 38)

It is also recommended that consideration be given to applying similar budgeting and financial statement disclosure requirements in other instances where significant program

costs have been netted against revenue. For example, provincial income tax revenue from both corporations and/or individuals is presented net of royalty credits, royalty rebates, small business deductions, renter assistance credits, political contribution deductions or credits allowed to taxpayers and administration fees paid to the Government of Canada.

Comments

As with incentive programmes referred to in recommendation 27, royalty tax credits can also be said to relate to the generation of that revenue. Accordingly under revised legislation now in place, those tax credits will be applied to reduce non renewable resources revenue rather than tax revenue. Consistant with the general practise of governments in Canada, the other tax credits referred to in the recommendation will continue to be applied to reduce tax revenue.

Recommendation

29. *TIMELY FINANCIAL REPORTING*
(Section 2.4.7)
(1981-82: No. 47)

It is recommended that the Treasury Department initiate action involving all concerned to determine the feasibility, including ways and means, of more timely financial reporting to the Legislative Assembly. Such action should include seeking and addressing the requirements and preferences of the Select Standing Committee on Public Accounts for more timely reports on the Province's financial affairs.

Comments

The Government agrees that timeliness is an important objective of financial reporting. The Office of the Controller has issued a draft of a financial reporting policy directive which emphasizes that objective. It calls for earlier finalization of year end accounts by departments and earlier preparation of financial statements of funds and agencies. It must be recognized that the achievement of earlier preparation of the Public Accounts requires action on the part of all departments, funds and agencies, and as well the Office of the Auditor General if Public Accounts are to be presented at an earlier date complete with the Auditor General's reports on the financial statements.

Recommendation

30. *ALBERTA RESEARCH COUNCIL – FINANCIAL CONTROL*
(Section 2.5.1)
(1981-82: No. 39)

It is recommended that the Alberta Research Council continue with the action necessary to eliminate the remaining financial control problems in its fixed assets, research projects, project contracts, accounts receivable, expenditures and inventories, and payroll accounting systems.

Comments

The Alberta Research Council continues to assign a high priority to the resolution of its financial control problems. The three year plan that was implemented on April 1, 1982 is on time and producing the required results. Resolving the problems outlined by the Auditor General has been accorded high priority within the plan. Depending upon the availability of qualified and experienced employees, the objectives of the plan should be attained. Some progress has been achieved during the first year of the plan and it is anticipated that the next two years of implementing the plan will resolve the remaining problems.

Recommendation

31. ENERGY AND NATURAL RESOURCES – ROYALTY REVENUE SYSTEM
(Section 2.5.2)
(1981-82: No. 20)

It is recommended that the Department of Energy and Natural Resources continue to develop a new system to record, monitor and control royalty revenues from natural gas and natural gas by-products. The Department should also continue to bring up to date the verification of its existing data.

Comments

The development of an integrated Mineral Revenues Systems which commenced in 1983 is currently on schedule. The system is comprised of three sub-systems using a common data base. The Mineral Tax sub-system was implemented in March, 1984, the Petroleum Royalty Data sub-system is scheduled for implementation in November, 1984, and work commenced on the Gas Royalty Data sub-system in July, 1984.

The system automates routine mathematical calculations and permits a greater emphasis by staff on analytical work. In addition a new Management Reporting Information Sub-system using the common Data Base will provide a substantial increase in information for planning and decision making purposes.

Work also has continued on updating existing data. Verification has been completed for the years 1979, 1980 and 1981. The 1982 plant verification will be completed by September 30, 1984 with year-end processing following immediately thereafter.

Written procedures have been implemented which control the status of holiday wells. Also effective with 1983 reporting, a major improvement was made to the Gas Royalty Audit System to permit immediate editing of royalty reports and invoicing of underpayments. This significantly strengthens Department control and improves audit trails.

Recommendation

32. ENERGY AND NATURAL RESOURCES – SIMPLIFICATION OF ROYALTY REVENUE SYSTEM
(Section 2.5.2)
(1981-82: No. 21)

It is recommended that before the Department of Energy and Natural Resources develop a new system to monitor and control royalty revenues from natural gas and natural gas by-products, consideration be given by the Government to seeking a more efficient and less complex way of calculating, verifying and collecting gas royalties. In this regard, input should continue to be obtained from the gas industry and all Government entities involved in monitoring the production, processing and selling of natural gas and natural gas by-products.

Comments

A thorough review of the administration of the Gas Royalty regime has been completed by a task force of industry and Department representatives. Their report suggests ways to simplify the current paperburden experienced by industry and Government and to provide the Department with an effective control mechanism over the Crown's share of production available for sale and sold.

The new administration procedures, which have been reviewed with the Office of the Auditor General, will be implemented commencing in January, 1985 as part of the new Mineral Revenues System.

The administration of Gas Cost Allowance was redesigned for the 1983 and subsequent reporting years. These changes achieved a material reduction in the administrative burden of industry and the Department. Further improvements in the control of Gas Cost Allowance have been prepared and forwarded to industry associations for comment. Implementation is expected in 1984.

Recommendation

33. TRANSPORTATION – FINANCIAL CONTROL
(Section 2.5.3)
(1981-82: No. 40)

It is recommended that the Department of Transportation continue with its efforts to eliminate the deficiencies in its financial controls and accounting systems.

Comments

Alberta Transportation is continuing with a programme of eliminating the deficiencies in its financial controls and accounting systems.

Recommendation

34. PENSION ADMINISTRATION – ACCOUNTING AND FINANCIAL CONTROL
(Section 2.5.5)
(1981-82: No. 43)

It is recommended that the Treasury Department continue with efforts to eliminate the remaining accounting and financial control deficiencies in the operations and accounting records of the Pension Administration.

Comments

In the 83-84 fiscal year, Treasury Department made further improvements to the operations and accounting records of the Pension Administration and additional progress is expected in the current year.